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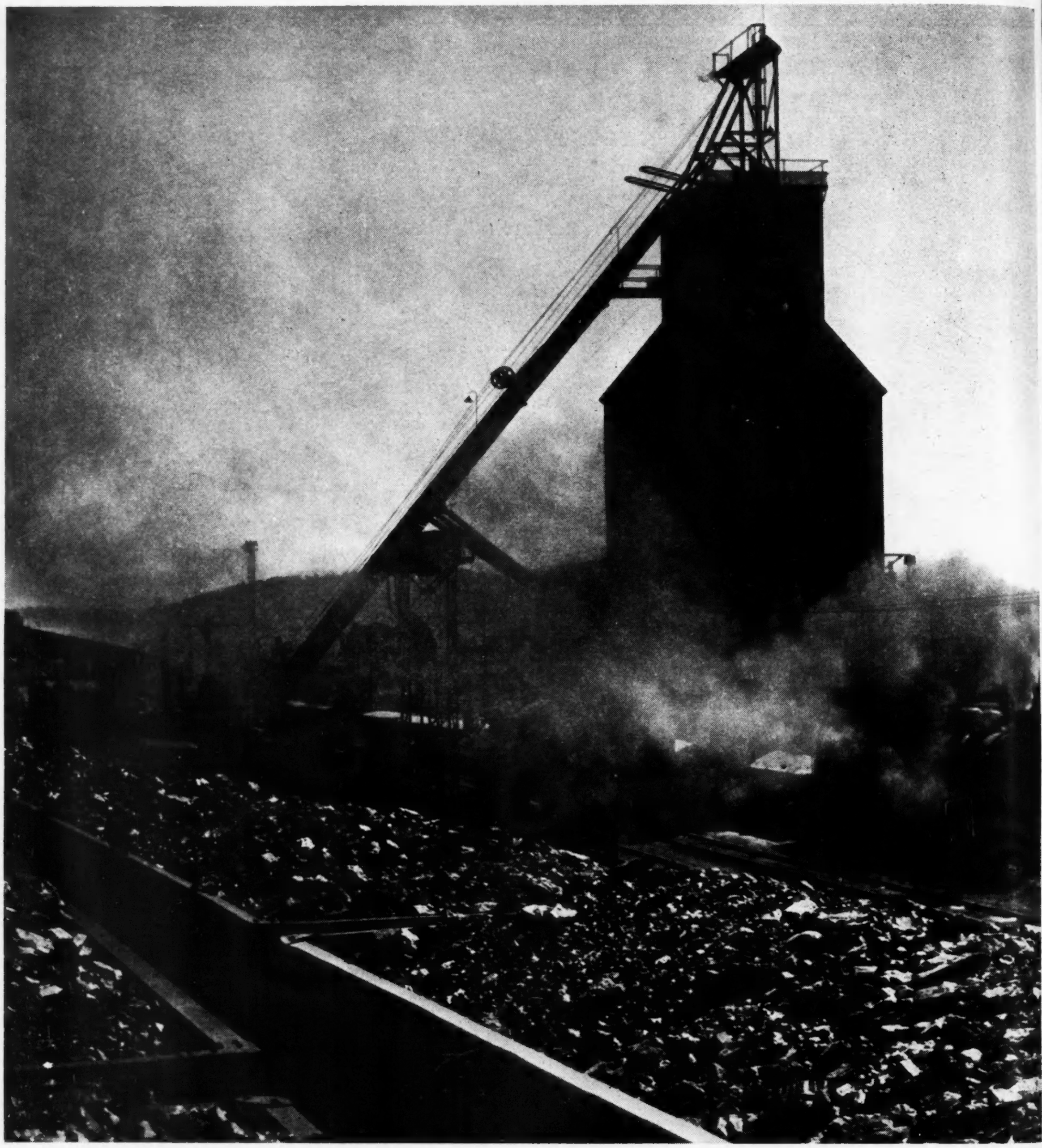
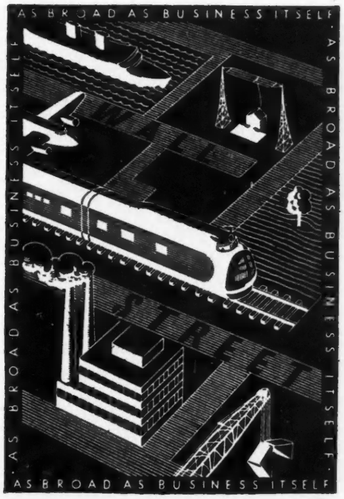


Cushing

Coal, most important source of power, will loom large in the news in coming weeks. If miners' wages are raised $2 a day, as demanded, it will wreck the Administration's anti-inflation stabilization program. If there is a strike, the Government will break it—and Congress probably will take the bit in its teeth on restrictive labor legislation. Outcome of this show-down should clarify labor policy. **See page 570.**

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* Laurence Stern, *Managing Editor*



The Trend of Events

UNITED WAR EFFORT? . . . Ever since the last elections it was certain that the Administration could not command majority support in Congress and that therefore the realities of the situation would demand genuine, non-partisan cooperation between the legislative and executive branches—at least on important national problems—if a dangerous paralysis of government were to be avoided.

Yet adequate cooperation has not developed. On the contrary, the area of conflict between the Administration and its Congressional opposition is now steadily widening, and partisanship is more stubborn and bitter than before. Cooperation is a necessarily two-sided thing. Whatever Mr. Roosevelt's former habits of mind, as of today—which is what counts—he is more cooperatively inclined than formerly, whereas the opposite is true of Congress.

It is all very well to say that Congress is supporting the President on the war effort and opposing him only on matters of "domestic" policy and administration. But, obviously, most of the major "domestic" problems—civilian supply, inflation control, mobilization of civilian manpower, etc.—are so closely and directly related to the war effort as to be part of it.

The American people favor an independent Congress—but they expect it also to be an intelligent, effective Congress. They hold that the proper function of the "loyal opposition" is to keep the Administration on its toes—not to obstruct for the sake of obstruction.

The present trend of political conflict in the midst of war is one that thoughtful, non-partisan citizens must view with misgiving. This Congress to date has shown far greater skill in throwing monkey-wrenches than in constructive legislation. Certainly that is not helpful to the war effort. If it continues it will also become a political boomerang. Mr. Roosevelt may not be as politically popular as formerly—but if there is any public cheering for Congress our ear can not detect it!

SOURCE OF TROUBLE . . . At bottom every major administrative muddle at Washington can be traced to divided responsibility and overlapping authority. The food supply problem is fairly typical of this

trouble. For that reason—and because it is so important both to civilians and to the war effort—let's take a brief look at this administrative set-up.

Secretary of Agriculture Wickard is supposedly the No. 1 man on food supply. But he has no control over the supply of farm labor. On that, the armed forces, the Manpower Commission and the Selective Service System have more to say than Wickard and their primary responsibility is not food supply. Wickard has nothing to say about the supply of farm machinery and fertilizer. That is the function of the War Production Board. Food supply obviously is related importantly to farm product prices. But food prices are in the hands of Economic Director Byrnes, the OPA—and Congress. What about transportation to and from the farms? This problem is partly in the hands of ODT, partly related to the Jeffers rubber program, partly in the jurisdiction of the Petroleum Administrator.

Under such circumstances, to call Wickard the "food czar" is quite absurd. This is not an isolated case. Similar division of authority and responsibility chronically plagues the WPB, the rubber program, the oil supply program and every other major undertaking. It can not in any event be entirely avoided. But it could be minimized by establishment of a real war cabinet, including all chiefs of agencies vitally related to the war effort and meeting regularly with the President for resolving the conflicts and agreeing on cooperative action. Busy as the President now is, there is no alternative solution that would be adequate. To keep on reshuffling the administrators or to add new agencies is merely to confound the confusion.

GREAT ACHIEVEMENT . . . We have done a bit of fault-finding—valid, we think—in the first two editorials in this issue. Occasionally, however, it is a good thing to take one's eyes off the trees, back off enough to get a clear perspective and look at the forest. We have been fully at war only a little over fourteen months. How have we done? The answer must be, amazingly well.

The production figures up through the end of December are the latest available but suffice to paint the broad picture. Here are a few samples: more than 8,000,000 tons of merchant ships in the first year of war, against 1,606,000 tons in the first twelve months of our effort in the first World War; 47,689 airplanes, against 12,089; 670,000 machine guns, 10,250,000,000 rounds of small-arms ammunition and 181,000,000 artillery shells, against 226,-000 machine guns, 3,500,000,000 rounds of small-arms ammunition and 18,000,000 artillery shells in all the nineteen months of our effort in the last war. In trucks and tanks and guns the difference is even more greatly in our favor this time.

During the first year of the last war we sent about 500,000 partly trained soldiers to France, where they had to be armed by our Allies. In the first year of this war we sent over twice as many soldiers abroad—fully trained and equipped. Besides supplying much equipment to our Allies.

Credit in varying measures for this remarkable performance is justly due the Administration, which did the top planning; Congress, which voted the money; private industry, which "delivered the goods"; and to labor, which has toiled infinitely more than it has loafed. If any of the major groups participating in the effort had fallen down on the job as badly as the more hot-headed critics usually assert, such figures as those cited heretofore would not have been possible. So we have done very well. Now we will have to do better.

STRANGE BUSINESS . . . The mental processes of those gentlemen who administer the anti-trust laws are at times very hard for the ordinary layman to follow. For instance, the Department of Justice recently obtained restraint of trade indictments of the Great Atlantic & Pacific Tea Company, Kroger Grocery and Safeway Stores.

The only "offense" that we can see is that these chain grocers do a very large business. They have been doing so for years. Everybody knows it. But, obviously, they don't have a monopoly; and wherein do they restrain trade? They operate on a much lower profit per dollar of sales than do smaller competitors. Their ability to do so, through economical mass selling, is the Big Idea behind this type of business enterprise.

Who is the Department of Justice trying to "protect"? The consuming public or inefficient, small-volume grocers? If there were no chain grocers, some of the independent merchants might make more money—at the public's expense.

One of these indictments—that against A. & P.—has already been quashed by the Federal District Court at Dallas on the ground that the grand jury's findings were "too vague". Vague is the right word, but doubtless the Department of Justice will carry the case on up to the Supreme Court. The latter court has already ruled in several instances that bigness and integration are not of themselves in violation of the anti-trust laws.

To bring such actions today when the big chain grocers are struggling to supply the public—with ever increasing difficulty and declining profits—seems to us almost frivolous. If the Department of Justice can't find things more important to do, it would serve the public interest better by just doing nothing. Or it might let some of its surplus lawyers do knitting for the Red Cross.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 566. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue. Monday, March 1, 1943

As I See It! BY CHARLES BENEDICT

"AND THIS SHALL ALSO PASS"

Despite all the propaganda that has attributed infallibility to Hitler and greatness to Stalin, events have proven that they are men like other men and possessed of those weaknesses which make them both liable to the greatest errors of judgment. Hitler succeeded only so long as he attacked weak and unprepared people. He was so carried away by his success that he believed himself the possessor of supernatural gifts and saw himself as master of the world with the power of life and death over all mankind. Then the tide turned against him. Today the world no longer sees him as the great master-mind but as the opportunist he has been from the beginning—a force for evil that succeeded temporarily only because he was backed by a highly developed war machine which had taken twenty years to develop.

As he falls from his high place, pulling the German people down with him, I wonder whether those about him are still so blind that they will continue the grave errors of judgment which have led to Hitler's downfall—the persecution of helpless peoples. It is utterly amazing that the men and women of Germany, to whom knowledge was more readily available than to most, should have backed Hitler in the pursuit of a policy which by every law of nature was destined to failure.

And now anticipating the collapse of Germany, Stalin—identified by Lenin as a man of overweening ambition — is making a bid for world power on the basis of his recent successes against the German legions. Like Hitler, he spent twenty years in building up a titanic army, as we have since discovered. Like Hitler, too, his agents are carrying on subversive movements in every corner of the globe.

Always the opportunist, when his armies were suffering severe reverses, he agreed to the conditions of the Atlantic Charter and the Four Freedoms. Making a Treaty of Alliance with Britain last year, Stalin consented to the elimination of his claims to the Baltic states. But with the retreat of the German armies, we were informed that "the subject was merely dropped for the time being." His territorial demands and political aims are being freely discussed now. He wasn't ready to do so at the Casablanca Conference and while the Nazis were still at Stalingrad.

Since the landing of American forces in Africa, he has been stirring up trouble all over Europe, as well as in England, in the United States, and in China. Stalin already believes he has the whip hand but, like Hitler, he will find there is many a slip 'twixt the cup and the lip.

Our difficulties in Africa can be directly traced to the political intrigue of the Leftists in North Africa. It was mainly responsible for the costly delays—and might have resulted in a defeat to American arms when Rommel struck the first blow in the battle for Tunisia.

Since Stalin has come out into the open the Leftist propaganda campaign has gained momentum. It is being broadened out (*Please turn to page* 608)

Three Lions

The Rock of Gibraltar

Projecting Security Trends

Measured by this publication's weekly index of 273 stocks, the market now is within a fraction of the top level reached on the abortive war boomlet in the autumn of 1939 when many buyers were "hung up." We advise deferring purchases.

BY A. T. MILLER

Summary of the Fortnight: Our broad weekly index advanced about 7 per cent; index of low-price stocks by nearly 9 per cent; index of "quality" issues by less than 1 per cent. With the year's cumulative volume the largest for the period since 1937, the public is operating this bull market to the growing amazement of the professionals.

One of the avowed purposes of New Deal stock market reform was to eliminate manipulation and to discourage margin trading. It was presumed that a market predominantly on a cash basis was the same thing as an "investment market." It was also assumed that in this new "investment market" price fluctuation would be much less extreme than in the old, unregenerate days of unhindered "margin gambling."

Well, the stated objective was attained—so far as concerns manipulation and margin trading. But the results, so far as price movement is concerned, are proving ever more surprising to the Washington planners.

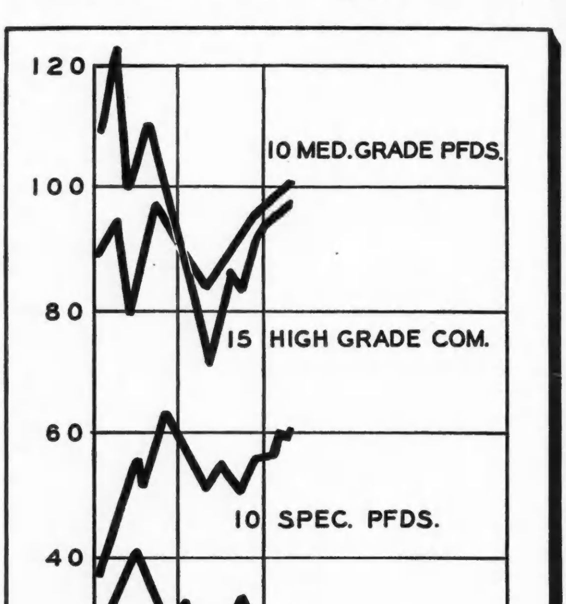
In the first two months of this year, this publication's weekly index of 273 stocks advanced a bit over 30 per cent. In no two months of 1929 was there anything like that. The nearest to it was a gain of about 11 per cent in June-July of that year. In no similar time span at any time over the "speculative period" 1926-1929 was there any rise approaching it in vigor on a percentage basis.

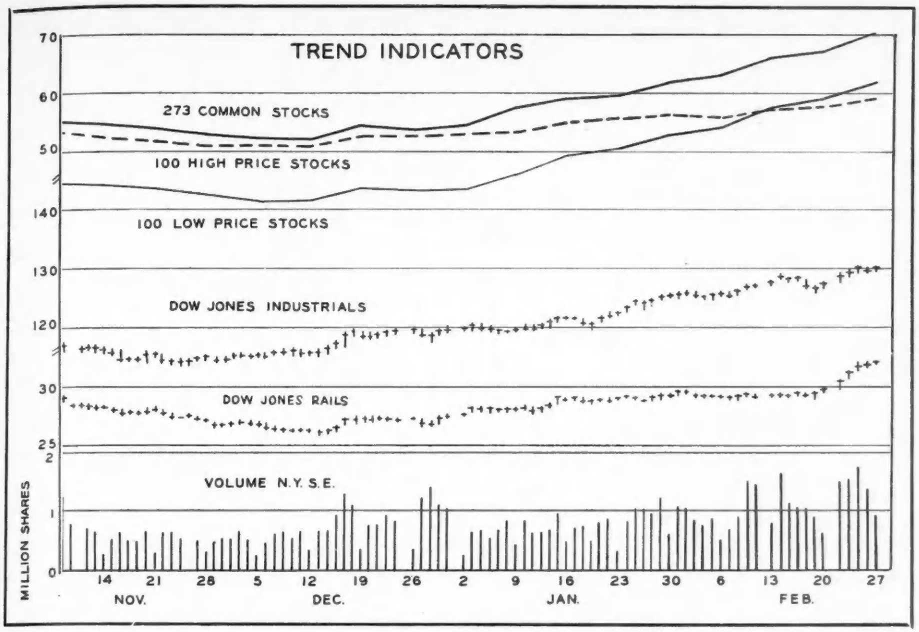
Of course, the lower the starting base, the greater the tendency toward sharp percentage rise. It would thus be more useful to make present comparisons with respect to the bull market of 1935-1937, which also was preponderantly a "cash bull market." At the end of last year our weekly index was just above 54. It was at approximately an equal level in mid-July, 1935. At no time thereafter did it rise as much as 30 per cent in eight weeks. To move from the 54 level to 71, where this index now stands, took more than 17 weeks or over twice as long.

Evidently the public is getting more and more adept in making speculative hay out of a cash "investment market."

In this second of our great New Deal bull markets we see enthusiastically active investment (?) demand for such things as Hupp Motor, Callahan Zinc, Equitable Office Building, Park Utah, New Haven, Seaboard Air Line, Graham Paige, Colorado & Southern, General Realty, Commonwealth & Southern, etc.—at prices from 75 cents to $3 a share. Most of these stocks are just pieces of paper. Since they have had no trouble advancing so hugely—percentage-wise—what's to stop them going up another 100 or 200 per cent or what have you? I don't know specifically what will stop them—but I know they will be stopped. They always have been stopped in due course, with late bulls holding a very unpleasant bag.

We are hearing more and more confident assertions that because margin buying shows no sig-





nificant rise, this market should either escape reactionary periods or any reaction should be "small." Maybe so, but we heard the same kind of rationalization in 1936-1937. At the end of March, 1936, for example, when the rise had been running for about a year, brokers loans were only nominally above the average of the year 1934; and in the first quarter of that year they increased only $59 million or about 6 per cent, while the broad market average advanced about 25 per cent. In April, however, there was a reaction of 14 points—or a bit over 15 per cent—in this publication's inclusive weekly index. Probably there was some bad news at the time to intensify it, though at the moment I don't recall what it was.

Maybe it will take news this time also to "correct" the present market. It might come from the war fronts—although on balance, while reverses are possible, the basic war trends appear likely to produce much more good news than bad. But don't forget the home front. In the war against inflation the Administration has not yet surrendered. There are some more shots in its bag. They include an already formulated OPA drive against corporate profits as a political weapon to use in trying to restrain labor and farm demands; an unformulated, but coming, move for higher corporate taxes; and, probably, some kind of direct attack on the bull market by the SEC or the Administration as a whole, if the rise continues at anything like the recent pace in price movement and trading volume.

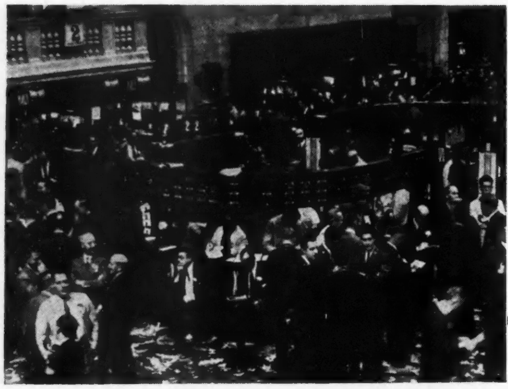
One of the strongest foundations for this bull market is confidence in a post-war boom. Probably we'll get it—but since we are now discounting it so far in advance, may the public not be minimizing the transitional adjustment period between the war activity and that contemplated boom? We had a quite painful bear market in 1919-1921 and a great deflation of commodity prices, before the stage was cleared for the sustained post-war boom. It is reasoned now that we won't have a similar deflation because, relatively, we have had so much less price inflation — but that the market is a good buy because we are going to get more inflation! The market collapse of 1937-1938 was largely a commodity phenomenon. For the sake of perspective it may be noted that Moody's spot commodity index today — in this period of "comparatively little" price inflation — is about 20 points higher than where it was when the speculative bubble burst in the spring of 1937. The higher it goes, the more certain it will become that we can not transfer from high war activity to sustained high peace activity without a stern period of deflationary adjustments.

From the large numbers of stocks making new highs each week, you might assume that making money is a cinch—that you can almost buy blindfolded. Perhaps it may be worth while to cite here a partial list of the stocks which—if you had bought them at last year's highs—would as of the end of February either show you no profit or scarcely more than enough to pay commissions and transfer taxes. Here are some of them:

Bendix, Celanese, International Telephone, Climax Molybdenum, Philip Morris, Phillips Petroleum, Safeway Stores, Timken Detroit Axle, Union Carbide, United Fruit, U. S. Gypsum, U. S. Steel, Endicott Johnson, Cluett Peabody, Clark Equipment, Spicer Manufacturing, Square D, Stewart Warner, Melville Shoe, Holland Furnace, Eaton Manufacturing, Thompson Products, United Drug, W. T. Grant, Kress, Kresge, Corn Products, Dow Chemical, Monsanto Chemical, Fairbanks, Morse; Kroger, Mack Truck, Penney, Minneapolis-Honeywell, Sun Oil, Murray Corp., Doehler Die Casting, Pittsburgh Screw & Bolt, Pittsburgh Coke & Iron, besides, in general, the air lines, coppers, many rails and various steels.

There are more than three times as many as I have space to list individually, and even some low-price stocks are among the January-February laggards. In many cases, of course, they lag now because they had a big rise in 1942. Comparatively speaking, the major groups "behind the market" are heavy steels, aircrafts, coppers and rails. The speculatively-minded are probably correct in betting that these groups will be prominent in any extension of this leg of the bull market.

Advantages of Buying For



Cushing

CAPITAL APPRECIATION TODAY

BY L. O. HOOPER

THERE'S nothing new about buying stocks for capital appreciation. That's the purpose of most purchases. Buyers may like to have their holdings "pay their board" in dividends and dividends may be pleasant to collect; but there is nothing in investment more satisfying than profits, whether in the pocket or just on paper. Even the conservative stock buyer, driven to equities from bonds because of low yields on funded securities, has a secret hope, usually, that the value of his portfolio will increase.

To apologize for the quest for capital appreciation is to apologize for the way Americans think about wealth. Just as the British measure a man's wealth by his "income," Americans habitually think in terms of the size of the principal. We do not say, "what is his income?" but, "how much is he worth?"

In these days of high income taxes, low bond yields and reduced savings bank and building and loan interest rates, it is almost impossible to accumulate a fortune from savings. Income tax rates in the so-called "savings income" brackets tend to be confiscatory, and there is little prospect that they will be lower. The statutory rate on thrift deposits in New Jersey now is 1%, some banks in New York pay 1½% and 2%, and a few New England savings banks still pay 2½% and 3% on limited amounts. Formerly the savings bank rate was at least 3%, with 4% common in New England. The writer remembers one savings account, some 22 or 23 years ago, on which he was paid 5½% compounded quarterly. Now, at 5½% compounded quarterly, savings double themselves in 12.68 years. Even at 4% compounded semi-annually, a fund doubles itself in 17.415 years. But at 2% it takes 34.743 years, or a period considerably longer than the average span of the "savings years" of a man's lifetime. At 1%, compounded semi-annually, a fund doubles in 69.237 years, or only in a lifetime.

In our day and generation, those who want to make money make more money, therefore, just can't "put it in the bank." Any yield over 3½%, or perhaps 4%, assumes a degree of risk; and only the wealthy can live on 3½% interest.

To build a fortune, today's young people, like their forebears, must save; and if one's personal affairs are well conducted, he certainly will have a savings bank account for emergencies, if for nothing else. The task of fortune accumulation from salary and business income, however, is most discouraging. The government takes a big slice at the start, meaning that there is less principal accumulating; and the accumulated principal, as just shown, grows very slowly at today's low interest rates.

Naturally, those who are seeking the building of

Speculative Issues Primarily for Appreciation

	Recent Price	Remarks
Barber Asphalt	14¾	Aggressive new management.
Fansteel Metallurgical	12½	Possibilities in powdered metals.
Farnsworth Radio & Television	5¾	Research in electronics.
Homestake Mining	33½	Gold price may be higher in post-war economy.
International Paper	10¼	Rapid improvement of position.
Kerr Addison Gold	5	New Canadian producer.
National Supply	8½	Big increase in oil well drilling expected.
Studebaker	8¼	Good management constantly improves position of leading auto independent.
Warner Bros. Pictures	9½	Vast financial improvement.
Wilson & Company	5¾	More promising recent record than other packers.

a competence will have to take risks. They will try to keep their incomes as high and their income taxes as low as possible by seeking income on which the rate of taxation is low; or, still better, they will try to invest their funds in securities and enterprises where the principal will increase, but no taxes or only small taxes will accrue because "paper" profits are allowed to run. No capital gain is assessed for taxes by the government, of course, until that gain is registered through sale of the asset. Furthermore, those who are seeking to build up principal will try to get dividends of more than the 1% to 3½% which they could obtain on non-risk securities, or in a savings bank or similar institution.

The problem is even more acute for those who are in the higher income tax brackets—especially for those who are accustomed to spending liberally to maintain a high standard of living. After a certain point is reached, less than half of the gross pre-tax income is saved as net income after taxes.

How, then, can a fortune be accumulated by an ambitious young person starting out in life? And how can a man who already possesses a capital fund realize a satisfactory income from it and at the same time see it grow further? The answer is not simple, nor is it applicable to all types of people; but given the right habits of thought, persistence, and a measure of good luck, it can be done. The technique, of course, is easier to describe than to execute.

Appreciation Possibilities Plus Income

	1942 Dividend	Recent Price	Remarks
Bohn Aluminum & Brass	$3.00	44	Light metals fabricator with growth promise
Canada Dry Ginger Ale	0.60	16	Peace time expansion in cola drinks expected.
International Harvester	2.50	60	Emphasis on food production should increase earnings.
McKesson & Robbins	1.00	16½	Earning power rising as result of better management.
Minneapolis-Moline pfd.	6.50(b)	78	Farm implements; $39.25 back dividend accumulation.
Minnesota Mining & Mfg.	1.40	52½	Make scotch tape; a growth situation.
Montgomery Ward	2.00	37	Post-war recovery in earnings and price of stock probable.
Ohio Oil	0.50	14¾	Large oil reserves. Higher crude probable.
Paramount Pictures	1.20(a)	18½	Rapid progress reducing debt and increasing earnings.
Pure Oil	0.50	13¾	Oil reserves have increased faster than price of stock.
Remington-Rand	0.80(c)	13	Huge post-war replacement demand for office equipment.
Royal Typewriter	4.00	52½	Proved ability to expand share of typewriter business.
Sears, Roebuck & Co.	4.25	64	Should profit from replacement demand for consumer's goods.
Socony-Vacuum	0.50	11¾	Important factor in world petroleum markets in peace years.
U. S. Leather "A"	1.00(d)	15	Should realize further earnings increase and pay larger dividends.

(a) New rate.
(b) Should also make payments on arrears.
(c) Also 10% in stock.
(d) Two most recent payments at this rate.

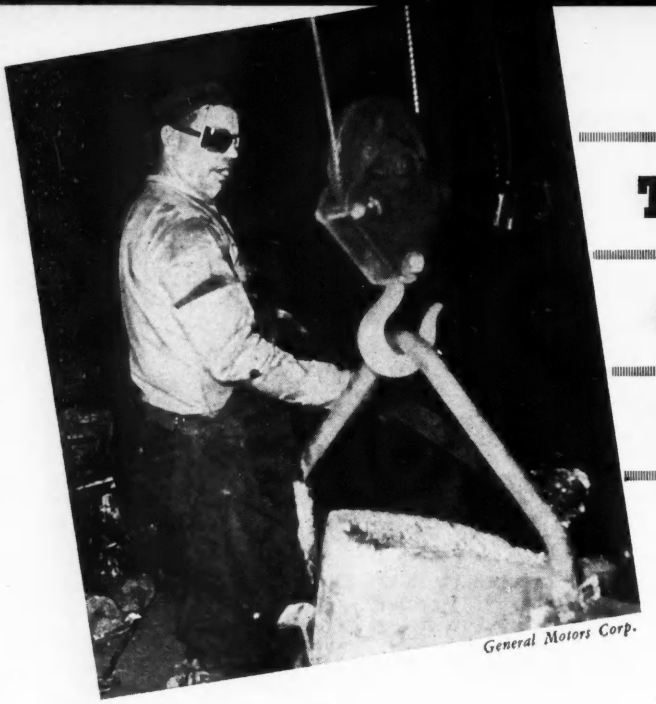
Effect of Taxes

In the first place, the present revenue law has established the principle that capital gains should be given different treatment in tax matters than income for salary, dividends and interest. Briefly, the new law provides that (1) short-term capital gains (on the sale of assets held less than 6 months) go into the income tax return at 100% of face value and are taxed like any other income, but that (2) long-term capital gains (on assets held 6 months or more) go into the income tax return at 50% of their face value; and that (3) if the taxpayer finds he is in an income bracket where it pays him to do so, he may figure his long-term capital gains tax separately at a 50% rate, which in effect is a 25% rate on long-term capital gains, since they have gone into his income tax return at 50% of their face value.

The effect of this is to make long-term (not short-term) capital gains income pay a smaller tax than other income—if the taxpayer is in the higher brackets. In every case, of course, the taxpayer has to make two computations, one consolidating all his income into one class and determining what the tax would be on capital gains and other income at the regular normal and surtax rates, and the other segregating his other income at the regular and surtax rates and his long-term capital gains at the "50% on 50% of face value" rate (or the 25% rate); and then determine whether it is to his advantage to use the "alternative" method. Usually it will be found that long-term capital gains will pay taxes at a lower rate if the gross income before taxes is $18,000 to $20,000 or more. For the wealthy, or the "prosperous," therefore, long-term capital gains income usually is worth more than salary or dividend and interest income. For the very wealthy, those with incomes of $50,000 to $500,000 per annum, long-term capital gains income is worth very much more than salary, interest and dividend income.

Exact computations would be difficult, so we are not presenting specific illustrations. In some cases, however, it can be shown that for a wealthy person $50,000 of capital gains is worth more than $100,000 of other income. For a corporation executive with a salary of $25,000 to $50,000 a year and some other income, $15,000 to $40,000 of long-term capital gains might be worth more than his salary.

It should be remarked in passing, that there is a very great incentive for a man of wealth to keep his securities at least six months; otherwise his profits will be taxed at (*Please turn to page* 607)



General Motors Corp.

THE FUTURE OF ORGANIZED LABOR

BY LAURENCE STERN

ORGANIZED Labor is a minority pressure group which in recent years of New Deal favor has come to exercise a political and economic power disproportionate to its numerical voting strength.

In this democracy no minority group can get away indefinitely with special privilege—and unregulated freedom to abuse it or use it in ways contrary to the national interest. At a liberal estimate, probably less than one-fourth of the gainfully occupied men and women of this country belong to labor unions.

For a great many months majority public opinion—as is not surprising under the circumstances prevailing—has been growing less favorable to labor unions, as now organized and led; and more favorable to business management.

This majority opinion, however, is not anti-union on the whole. What it is hostile to is unregulated special privilege and the abuse thereof. This critical majority believes that in some way the leadership of Organized Labor must be made "more responsible" with respect to (1) the national interest and (2) democratic procedure in union organization and administration. Polls of unquestionable honesty show that a large percentage of union members themselves are critical of the status quo, especially as regards point No. 2 in the preceding sentence.

Both without and within the unions the pressure for reform and for protective and corrective "checks and balances" is growing steadily. It can not be much longer denied by the pro-labor politicians at Washington or by the national leaders of the labor movement. Indicative of the way the wind is blowing, in a recent public address William H. Davis, chairman of the War Labor Board, strongly advocated Federal legislation to enforce the democratic election of officers of officially recognized trades unions, to curb union racketeering and to require public revelation of union financial records.

In another recent public address, Prof. Ralph A. Newman, a member of the National Labor Relations Board, urged that the Wagner Act should be amended to empower the Board to review the "reasonableness and propriety" of admission requirements established by unions. As it is, unions can bar men from work by setting up exhorbitant initiation fees—in some instance ranging from $200 up to even $3,000; and closed-shop union officers, in some instances more or less self-perpetuating, can discharge men from work by expelling them from union membership for a great variety of reasons, real or alleged.

The Roosevelt-Churchill "Atlantic Charter" listed nine freedoms and first on the list was: "The right to work, usefully and creatively through the productive years." Can this No. 1 freedom of the individual be left to the discretion and the veto power of trades unions? Prof. Newman, as an individual member of the Labor Relations Board, thinks not.

Clearly, Organized Labor has already passed its peak in political power and in arrogant indifference both to the public interest and to democratic, equitable procedures in union administration.

There are only two practical questions now involved: (1) How fast the reform will come; (2) to what extent it will be self-reform, to what extent reform imposed by Federal legislation. The answer to these questions is largely up to the national leaders of the unions. The general character of this leadership during the war effort to date has impressed public opinion unfavorably, and public patience and tolerance are running low.

A show-down bearing fatefully on the future of Organized Labor is now close at hand. Backed by clearly implied threat of a strike which the public interest could not and would not tolerate, John L. Lewis has demanded a $2 a day wage increase in the coal-mining industry. The primary issue is not

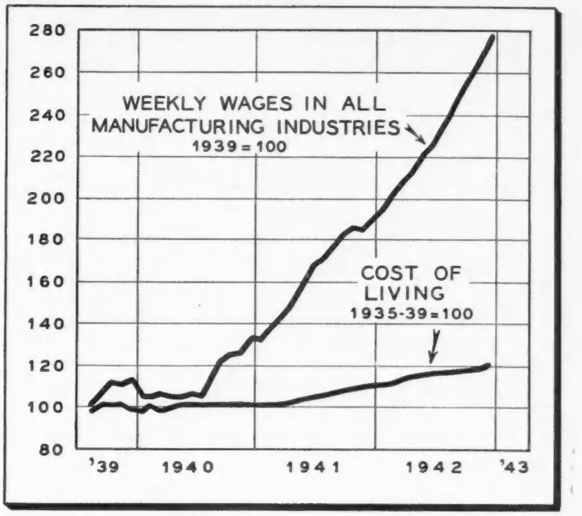
between Lewis and the coal operators but between Lewis and the Government. If this increase is granted, the present wage-stabilization policy will go by the boards, other unions will demand and get higher wages, all inhibitions—now weak enough—will be removed from the Congressional farm bloc, and the inflation spiral in foods, wages and the cost of living will be merrily and disasterously on its way.

If Lewis insists on bulling it through — as he always has done in the past—somebody is going to get stepped on. I don't think it will be the Administration or the long-suffering public. I think it would be Lewis in particular and Organized Labor in general. Nothing else would so surely open the long-closed political door—closed by the Administration itself—to restrictive labor legislation. Reasonable and carefully considered regulatory legislation is a crying need and has been too long blocked. Hasty, vindictive anti-union legislation would do more harm than good to the national interest.

By opposing *all* legislatively-imposed reform—even such reasonable proposals as those cited heretofore by Mr. Davis and Prof. Newman—the national leaders of the CIO and the AFL continue to build up public antagonism that must inevitably erupt into Congressional action.

Representative Hobbs of Alabama has introduced a bill designed to outlaw certain extortionate union rackets and interference with interstate commerce which can not be prosecuted under existing law, as interpreted by the present Supreme Court. The sanctimonious reply of "Labor," as voiced by Joseph A. Padway, general counsel of the AFL, is that the bill is a threat "pointed straight at the heart of organized labor." This is sheer nonsense.

Obviously, the jailing of union racketeers is no more of a blow at the labor movement than the jailing of a crooked doctor is a blow at the medical profession or the jailing of a dishonest business man is a blow to business as an institution. Yet it is

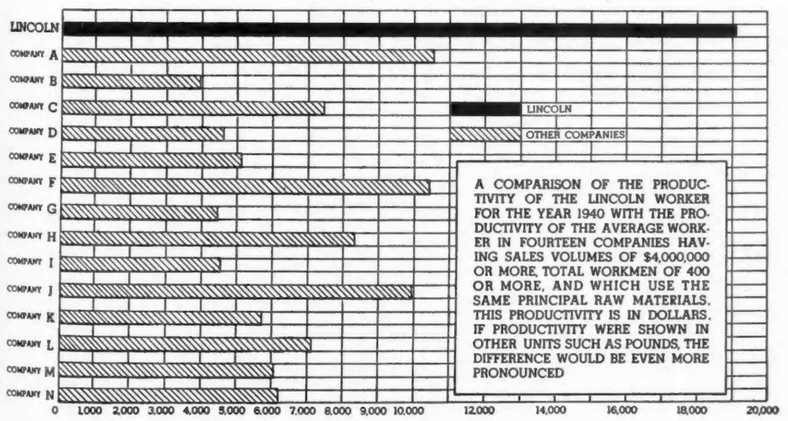


doubtful that the Hobbs bill will be adopted—partly because the Republicans in Congress seem dumb enough to go on the theory that it would be bad politics to offend the self-proclaimed spokesmen of Organized Labor; whereas the fact is just the opposite, because both the general public and the vast majority of the rank-and-file union members don't share the AFL leadership's indifference to labor rackets, past and present.

Aside from the coal mining wage-and-strike issue shaped up by John Lewis, there is another showdown looming up that inevitably will put both the unioneers and Congress on a very hot spot. This is the matter of compulsory mobilization of manpower and womanpower for war work. Senator Austin—co-author of the pending Austin-Wadsworth bill to provide for drafting men of 18 to 65 and women of 18 to 50 for war work—has now offered an amendment which would relieve both such draftees and volunteer war workers from any requirement to join a union.

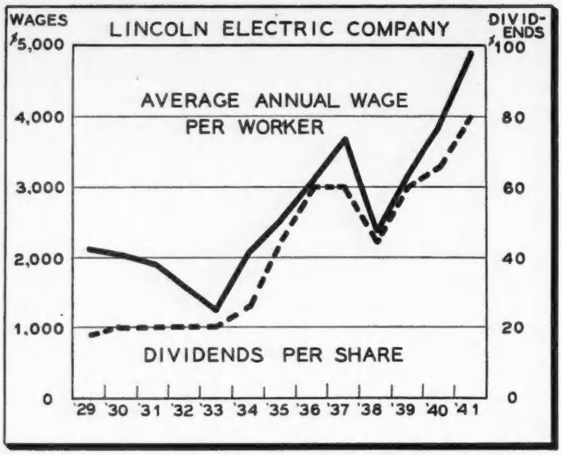
If adopted, this would for all practical purposes outlaw the closed shop and the maintenance - of - union - membership shop for the duration of the war. For that reason, Organized Labor will naturally fight it tooth and nail. For a related reason, Organized Labor will likewise oppose any form of compulsory manpower mobilization. It knows that for the Government to draft men for work in closed-shop union plants would be to draft men into closed-shop unions — and that, if it ever comes to that, Federal regulation of the unions will be both inevitable

WORKER PRODUCTIVITY IN DOLLARS IN 1940*



*Worker productivity equals total sales in dollars divided by average number of employees.

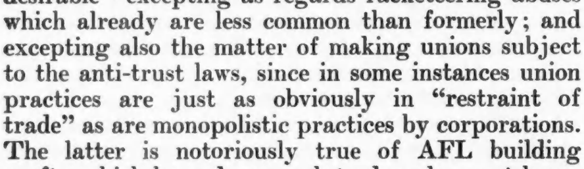
COMPANY A: Machine Tool Mfr.
COMPANY B: Auto and Aircraft Parts Mfr.
COMPANY C: Gas Welding Supplies Mfr.
COMPANY D: Electrical Equipment Mfr.
COMPANY E: Electrical Equipment Mfr.
COMPANY F: Auto Mfr.
COMPANY G: Auto Part Mfr.
COMPANY H: Auto Part Mfr.
COMPANY I: Electrical Equipment Mfr.
COMPANY J: Machine Tool Mfr.
COMPANY K: Domestic Furnace Mfr.
COMPANY L: Auto Mfr.
COMPANY M: Machine Tool Mfr.
COMPANY N: Gas Welding Supplies Mfr.



and prompt. Mr. Roosevelt is on public record as having stated that neither the Administration nor Congress would ever force people to join closed-shop unions.

Labor unions are here to stay and will always be a power to reckon with—but you can put it down that they are on their way to governmentally-defined and enforced standards of democracy and fair play in their internal organization. That in itself will go a long way toward inducing external union policies more consistent with the public interest. To attain the latter goal by law or bureaucratic regulation would be quite impracticable and undesirable—excepting as regards racketeering abuses which already are less common than formerly; and excepting also the matter of making unions subject to the anti-trust laws, since in some instances union practices are just as obviously in "restraint of trade" as are monopolistic practices by corporations. The latter is notoriously true of AFL building crafts, which have done much to deny low-cost housing to the public.

"Passing a law"—or a number of laws—could never more than partially solve the complicated problem of labor's relation to the community. One way to balance an excessive power, without denying it by law, is to neutralize it or equalize it by an offsetting power. That is already happening. In the matter of anti-inflation wage stabilization, we currently see the power of the Administration contending with the power of the unions. This sets a precedent that is worth mulling over. Obviously, exhorbitant union demands—and strikes—may be indefensible from the point of view of the public interest in peace time as well as during war. In that case it would not be surprising to see the very effective moral pressure of future Administrations brought to bear against the union side—instead of always for it, as was the case with the New Deal before the war.



In this matter of balancing power against power in collective bargaining, it is very significant that the Chairman of the War Labor Board has been quoted as favoring industry-wide collective bargaining so far as possible (as is the practice in England); and industry-wide employer organization for this specific purpose. The merit and the logic of this suggestion are obvious. In the past it has been favored union strategy to deal with one employer at a time. That had two purposes: (1) it put the closed company under special pressure because its business was diverted to competitors; and (2) it limited the total loss of wages during strikes. "In union there is strength." This is as true for employers as for workers. The time will come when industry-wide union of employers for collective bargaining will be sanctioned and encouraged.

What Cooperation Can Do

As compared with its latent possibilities, a bare beginning has been made on cooperation between labor unions and business managements. Those latent possibilities are enormous and are inherently capable of being developed into highly effective management-labor teamwork. If directed with unintelligent and short-sighted selfishness, a management-labor team could milk the consumer through excessive prices and freeze out the investors who furnished the capital — until stepped on by the Government or driven out of business by *intelligent* competition. Fortunately, American business management, by and large, is intelligent enough to know that this kind of management-labor connivance would be stupid. Today the great majority of business men thoroughly understand that it is "good business" to offer goods or services of the highest possible quality at the lowest possible price, while paying the highest possible wages. They know that such a policy, wisely administered, is not inconsistent with a good dividend return on invested capital.

In most cases manufacturing wages represent a much more modest proportion of the retail price of consumer goods than the great majority of people realize. For example, here are some industry-wide figures on 1939 peace-time operations (percentage of manufacturing wages to cost to ultimate consumer): manufactured foods, 8.5; cigars and cigarettes, 4; drug prepa- (*Please turn to page* 612)

BATTLES on the Home Front

BY WARD GATES

IN FIGHTING the war, our major achievements still lie ahead—but in the fighting and squabbling on the home front we apparently top the world. That is not as bad as it sounds. For one thing, it is because we are a democracy that we have these disputes and conflicts. In the Axis lands—and in Russia—people don't argue (at least not in public). They do as they are told.

For another thing, the war is still physically remote from American civilians — far more remote that it has been for English civilians. Closeness to death and danger—as well as closeness to stark national disaster at the time of Dunkirk—unified the British people in a way that America probably will not be unified in the course of this war.

But the war from here on will come closer home to us through mounting casualty lists, for major and fateful campaigns are in the making and not far ahead. The present over-criticism of unavoidable civilian controls and inconveniences is not something we can be proud of, and we are about due to begin a somewhat shame-faced retreat from excessive internal bickering, political feuding and striving for group advantages or exemptions from sacrifice.

Coakley in The Washington Star

"Balancing Act"

We are now face to face with that final stage of shortage that comes to every nation under the demands of total war — shortage of manpower and shortage of civilian goods and services. It is the handling and the apportionment of these shortages that most of the home front fighting is about.

Paul McNutt is reported at this writing to be on his way out as head of the Manpower Commission. The writer holds no brief for the politically-minded McNutt, but it should be obvious that his ouster of itself will contribute practically nothing to the solution of the problem of manpower mobilization—just as the substitution of ex-Senator Brown for Leon Henderson contributed nothing—except moderately less grudging OPA appropriations by Congress—to the solution of the problem of civilian scarcities, rationing and black markets. In the absence of a national selective service law applicable to all civilians, McNutt could only threaten and bluff and issue directives which were only indirectly and partially enforceable. Only men qualified by age and physical condition for military draft will be impressed by the "work-or-fight" rule, which itself was of questionable legality and which Congress is now threatening to "repeal."

Civilian mobilization for total war is indubitably a mess—and the most serious single aspect of the muddle is the threat of inadequate food production. It will be a miracle if this year's total output of the most essential foods — meats, dairy products, fats, poultry products—is as much as 90 per cent of last year's volume. Allowing for sharply increased military and lend-lease needs, that would mean a pretty tight pinch for civilians and very severe rationing.

But who is to blame? Congress and most of the newspaper editorial writers are blaming the Administration in general and such officials as McNutt and Wickard in particular. It is quite true that on civilian manpower mobilization—an essential phase of which is seeing to it that there is enough farm labor to maintain the needed food output — the Administration's planning and leadership have been faulty. One thing it could have done was to be much more sparing in drafting farm labor into the army, but that would have been a far from complete answer because war industry jobs at high pay have taken much more labor from the farms than has the draft.

One can say that the Administration has complicated the over-all manpower problem by permitting war-plant wages to go so high, but there are contra arguments to this. Only high wages would induce millions of women to look for factory work or justify migration of many male family heads to war jobs far from their previous homes. No Administration could have prevented a very considerable rise in industrial wage incomes in any event; and if war-plant wage incomes had risen only half what they did rise, the disparity as compared with farm wages would still have been wide enough to attract farm labor to the factories. There is simply no possibility of equalizing industrial and farm wages. The former can not be pulled down to the level of the latter on a weekly basis, much less an hourly basis. To raise farm wages to the level of industrial wages would require an increase in farm product prices so great on a percentage basis as to be utterly impracticable.

A considerable total of labor is being wasted through the inexcusable continuance of "make-work" or "feather-bedding" rules on the railroads and in certain of the AFL craft unions. How much labor could be "freed" for essential work by the ending of these uneconomic practices is hard to say—possibly the equivalent of 200,000 men. But those who criticize Roosevelt for usurpation of legislative powers should be the last to demand that he abolish such work rules by directive fiat of dubious legality. The same goes for lengthening the work week which—except for political complications—would be the simplest means of getting the equivalent of a greatly expanded labor force. In England factory workers are putting in an average of 55 hours a week. Here war workers are putting in an average of close to 48 hours a week, non-war workers an average of 40 hours a week, with few exceptions in certain areas.

From the Washington Star

Even if the Administration favored abolition of "feather-bedding" labor practices, lengthening of the standard work week without premium over-time pay, and compulsory allocation of civilian workers, it would require legislation by Congress to put such changes into effect. Therefore our critical and argumentative Congress can not itself escape responsibility for the "manpower muddle"; and its ideas on the subject—if one can judge by the confused debate—seem even more "muddled" than those of the Administration.

There are only three courses of action open to the nation on this complex and highly controversial matter: (1) No compulsion, no job control except by exhortation and financial inducement; (2) Oblique compulsion applied through the military draft system and through denying ration books to individuals who do not "cooperate" by taking essential job: (3) establishing the principle of universal selective service for civilians by law.

We are now following the first course and flirting with the second to the extent that the "work-or-fight" rule can be applied to potential military draftees. A bill to adopt the third course of direct compulsion is pending in Congress, sponsored by Senator Austin and Representative Wadsworth. The Administration has taken no stand on this bill and may be presumed to frown on it at this time. Organized labor is bitterly hostile to it. So are a great many other people, in and out of Congress.

Bernard M. Baruch has pointed out there is a very basic difference between drafting citizens for military service and drafting them for war work. In the first instance they serve the Government directly. In the second instance, they work for private employers. Further complicating the issue is the question whether drafted workers would have to join labor unions. The latter issue is just plain political dynamite.

On the other hand, England has compulsory national service for civilians—also labor unions—and the system has worked well. Actually, the mere existence of the power of compulsion has been more than 90 per cent of the story. It has been necessary to order very few people into specified occupations. Obviously, when an individual knows the Government can and will make him or her take an essential job, that individual will seek to comply with the objective while there is still some freedom of choice left as to just what kind of an essential job and in what locality.

But it is much easier to cite British experience than to follow it. There are some important and practical differences. The English are much more homogeneous than we; they live on a relatively small island, whereas our war plants and farms are scattered over vast distances; physical danger and crisis have created a much greater unity of public opinion than we have; their Parliamentary system works better in war time than can our more inflexible governmental system, as exemplified by the fact that they now have actual coalition government and a very large degree of political unity, whereas here "fourth-term" politics already muddy the Washington atmosphere and do no good to the war effort; and, finally, the English—partly from necessity, partly due to national temperament — have de-

veloped a degree of willing "national discipline" that we appear unable to match.

The writer agrees with Mr. Baruch that the principle of military draft is wholly different from the principle of drafting civilians for essential work on private payrolls. The Russians have no such dilemma, since both soldiers and workers work directly for the government — there being no private enterprise system. The Germans also have no such dilemma, for, while the superficial framework of private enterprise is maintained, the Nazi system has abolished human freedom and constitutional law.

But many people will find it impossible to go along with Mr. Baruch in accepting the principle of indirect compulsion except as applied only through the military draft machinery. Clearly it is valid principle that a man subject to military draft can be forced to take an essential job if he is exempted from such draft. But in the case of people not eligible for military service, what difference in principle is there between straightforward compulsory national service by law and oblique compulsion by denying rations? The writer is unable to see either a practical or a legal distinction. Either way, an individual would, in practical effect, be forced to take a job, not of free choice, with a private employer. Either way, the knotty question of the labor union angle would still have to be answered.

There is to be no backing down now on the objective of having approximately 11,000,000 people in the armed forces by the end of this year—and there should not be, for since the High Command is responsible for winning the war we will have to accept its decision as to the forces required. Under-Secretary of War Patterson points out that this would be $8\frac{1}{2}$ per cent of our total population as compared with $13\frac{1}{2}$ per cent of the German population in the Nazi armed forces. The latter percentage probably is closely matched by the British. The inference is that the strain on our civilian economy will be much less than in England or Germany and that therefore we ought to be able to manage matters without undue difficulty. But, unfortunately, it is not that simple. The chief reason why, theoretically, the strain should be less for us than for the English and the Germans is that our productive resources are so much greater than theirs.

From the New York World-Telegram

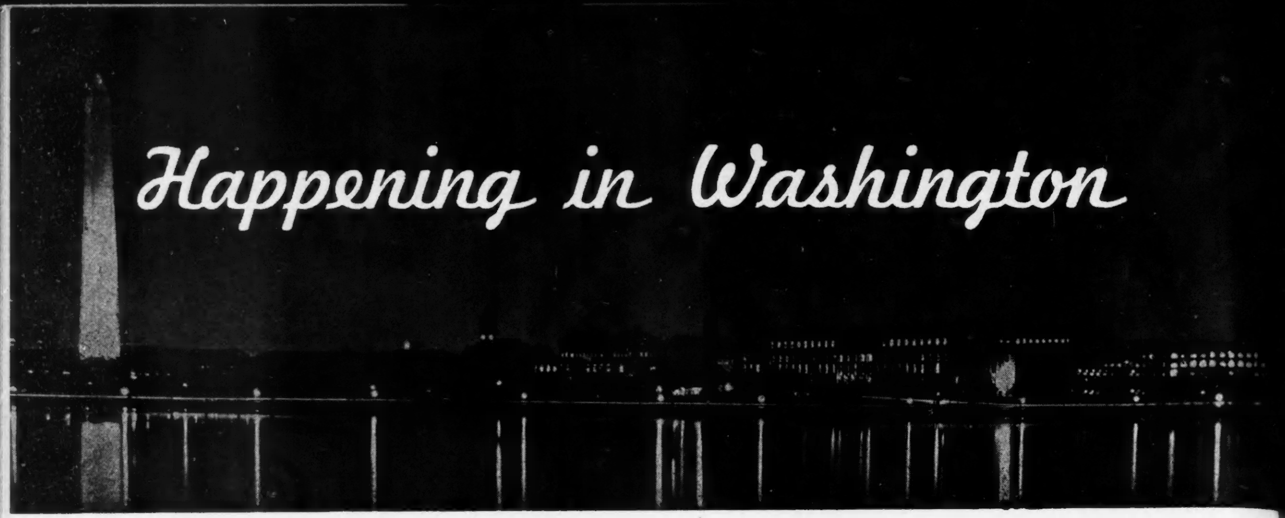
But the other side of it is that the productive goal we have set for ourselves is also much greater than theirs. While exact comparisons are not available, it is probably true that on a per capita basis our program of war and food production is double that of Germany. Our ocean transport problem alone means that sustaining armed forces of any given size requires a greater productive effort than would be required if we were in Germany's geographical position. Moreover, in addition to maintaining $8\frac{1}{2}$ per cent of the population in the services we are committed to providing maximum supplies for our Allies and their civilian populations. So far as the increasing strain on the civilian economy is concerned, the effect of the vast lend-lease program is identical with that of supplying of our own forces. Lend-lease volume is now around $800,000,000 a month, equivalent to about 8 per cent of total monthly war expenditures. We are also supplying substantial essential exports to our Allies outside of lend-lease.

When all of this is taken into account, our effort is considerably greater than would be indicated by the population percentages cited by the Under-Secretary of War. In any event it is so great that — despite our huge resources and without a much greater degree of civilian regimentation than we are now prepared for—the strain will be more severe than most civilians realize and than our public officials have intimated.

Therefore it appears to this writer that before the year is out we shall either *have* to lower our objectives on war production and the maximum size of the armed forces or we shall have to adopt much more stringent measures of civilian regimentation, including compulsory selective service either directly or by the oblique method advocated by Mr. Baruch. I can make no forecast as to which alternative will be chosen, since it will depend partly on the spring and summer war developments, partly on political factors. For most of this year, if not for all of it, it seems highly probable that we will defer a clear-cut decision on mobilization of manpower. A production crisis—which is possible in the matter of food—may be the only thing that can force a show-down decision.

The longer we muddle with manpower control, the more difficult will (*Please turn to page* 610)

Happening in Washington



Charles Phelps Cushing Photo

By E. K. T.

Accident Prevention as an economic factor in the war production program will come in for greater stress by the Department of Labor when more immediate problems are out of the way. More than one million man-days were saved in 1942 through like effort; yet since war's outbreak more Americans have been lost through accidents on the home front than have been killed, wounded, or captured in military or naval operations. Injuries alone: four million men.

Unskilled Workers will find their plight worse than ever in the post-war period. Competition for the high-wage jobs will be heightened not only by the return of servicemen to civilian life, but also by the fact that the War Manpower Commission training program will turn out more than five million skilled industrial operators by the end of 1943. The general intelligence and skill levels will be substantially upped by the time peace comes. Opportunity for the unskilled will be very limited.

Washington Sees:

Congress has lost patience with the spread of "absenteeism" in factories, shipyards, and other industrial operations and is readying legislation that can end the menace.

A virtually disregarded deterrent to production in peacetime, absences from shipyards, alone, in December took off production lines sufficient man-hours to build 10 destroyers. Scattered data from other industries indicate an overall picture translatable into similar losses.

Before Pearl Harbor, "absenteeism" accounted for three per cent of total hours worked in the average production plant. Today, when the need for faithful attendance at the desk, bench, or machine is critical, the figure has passed the 10 per cent mark in some instances. And it is still going up.

Congress can work out a solution if it will; and there appears to be a real determination to do so. The first step has been taken: shipyards have been directed to report to Congress names of civilian absentees, length of absence, reasons given, and justification or lack thereof. The data are to be transmitted promptly to local Selective Service Boards for application of the "work or fight" mandate. If that doesn't work (because local boards are autonomous), legislation will implement the policy.

Farmers will win their fight for more generous allocations of materials to produce machinery and equipment essential to the Food for Victory program. Donald M. Nelson has given a somewhat grudging "go" signal for a 30 per cent boost in steel allocations to stave off Congressional demand—legislation—that would throw his own overall production program askew. Agriculture isn't fully satisfied; will win further concessions before the spring activity begins.

Victory Tax cannot be paid by employers. That would be, for all practical purposes, an increase in pay, short-circuiting the machinery set up to pass upon raises. Bonuses, if not greater than paid before the war, may be continued. Increases to be paid in war stamps and bonds—to be held for a fixed period, say five or ten years—have been ruled out, too. That, says the Treasury, would invite inflation; the employee would regard the stamps and bonds his "nest egg," spend the money that normally would go into savings. The people are now saving at a rate of $40 billion a year.

Women Workers will predominate the new hirings calculated to bring the Federal government civilian payroll to a 3,500,000 total by July 1. Little by little the government is experiencing the problems that beset employers, chief among them a 59 per cent turnover in personnel in 1942. Causes: military services, 26 per cent; dissatisfaction with salary, 11 per cent; poor health, 11 per cent; promotional opportunity, 9 per cent; marriage, 4 per cent; other reasons, 39 per cent.

Best evidence that the Administration doesn't expect its "Beveridge Plan" to make headway in a Congress already committed to a policy of "shelve reform and pass the war legislation" is found in recent significant utterances.

President Roosevelt expressed it with finality; private industry, not Federal "made work," must cushion the impact of the postwar letdown, provide jobs for discharged soldiers, sailors, and marines.

Robert P. Patterson, Under Secretary of war, added the "how" to the President's "what." Selective Service, he said, worked successfully in creating the army, will work equally successfully in liquidating it when the job is done.

The primary and secondary skills of every man in uniform are a matter of record. Employers will be expected — required, if necessary — to list their needs, draw from the reservoir.

"No man will be mustered out of the parade line into the breadline," is the government's promise.

Overdue in Washington was the blow-off of steam generated by interdepartmental bickering, and let loose by Rubber Czar William M. Jeffers when he took to task "Army and Navy loafers" and "Washington experts" who, he said, are blocking the war's program.

The rotund railroad magnate who came up the hard way was expected to clear Capital fog the same way, if it became necessary. He didn't disappoint.

When he arrived in Washington he made two statements: "I don't know a thing about rubber, but I intend to learn." "If anyone attempts to block me, I"ll go to the people."

Both pledges appear to have been fulfilled. Congress, with an approving chuckle, "investigated" what many members already believed to be true. It was not all fire, they found; there was some smoke. But Jeffers gained his point. Rubber production got priorities. Not all Jeffers asked for -- but all he hoped for.

Comparison furnishes interesting information. So, government statisticians were intrigued, although not elated, by the fact that living costs in the United States have increased more rapidly than in Canada since the outbreak of World War 2.

Using 1935-1939 as base, general cost of living index in the United States at the end of 1942 was 120.4, against 98.6 in August 1939. The general Canadian index was 118.8 at the year's end.

Earlier invocation of price stabilization in the Dominion than in the United States was a factor. Wages and prices both were covered. Farm prices have been levelled, legislatively, in Canada; politically and administratively ping-ponged in the United States.

In both countries the indexes probably understate the true rise in living costs. They don't reflect quality deterioration, illegal price advances on the black markets, and changes in consumption patterns.

"Bureaucrats" are spending sleepless nights because Congress "planned it that way." Rules, regulations, directives, and administration of all government agencies are being spotlighted by a special committee.

Meanwhile the Appropriations Committee has sent its own staff of experts on the trail of government expenditures that do not follow the spirit, as well as the letter, of the law as enacted by Congress.

But that isn't all. The General Accounting Office, day-in-and-day-out watchdog of the Treasury, is turning up such embarrassing and annoying items as: The U. S. Maritime Commission purchased for

more than $2,000,000, the "S. S. President Roosevelt" from a firm that acquired the ship in 1931 for only $262,400. Worse yet, the firm bought it at that figure . . . from the United States Government.

It was an "arm's length" transaction. In such circumstances, the Federal purchasing agents can avoid only on pleas that are, to put it mildly, embarrassing admissions.

Biggest business pick-up of wartime was the sprout of activity in the United States Employment Service after McNutt announcement of "work (in an essential war industry) or fight."

Applications for placement have shot up from 150 to 200 per cent above normal and the business is still growing as new jobs go on the non-deferrable lists.

Envisaging a tax load four times that of the 30's, Chairman Walter F. George of the Senate Finance Committee lays out this ambitious fiscal program: first quarter tax payment on 1942 incomes; pay-as-you-go for the final three quarters (with 1942 balances postponed but not excused); enforced savings; and comprehensive sales tax.

United States agencies are on the move, literally, and its a costly procedure. The full time of 1,400 men, working three eight-hour shifts is required for the physical operation of shifting Federal agencies about. It costs $16,000 a month.

Here's an example why: one unit of the War Department moved from a section of one building to another part of the same quarters; next the unit moved three blocks to the new Departmental building; then shifted across the Potomac to the Pentagon Building — fourth floor; finally it transferred to the basement. Finally, that is, unless reports that it will switch to the main floor turn out to be true.

Federal employees are scheduled to receive salary increases totaling 30 per cent or 15 per cent above the "Little Steel" base. But they won't be violating the basic tenet of pay adjustments! It's arithmetic: They were upped 20 per cent before the formula was developed; now they'll get the other 10 per cent. Simple!

Majority Leader Alben Barkley needs no convincing that "absenteeism" is a problem of real proportion. Recalcitrant Democrats are building up a notorious record for absences when important "policy" bills are pending.

That way they "get in licks" against the New Deal; yet they aren't recorded as voting against the party. Many might oppose F D R for a fourth term; few seem to believe today he will not seek one. They don't want to be too far away from the coat-tails if need arises.

Shortage of tires, parts, vehicles, or manpower—or all of these — give the trucking industry a prospective 1943 headache. There will be a huge cut in the rubber supply available for highway transportation this year, its essentiality notwithstanding.

Drivers and mechanics are hard to find; stocks of certain necessary parts are totally exhausted; the gap between obsolete trucks being scrapped and the number of replacements is widening ominously.

Best O D T thinking on the subject adds up to adequate transportation for all essential military and civilian needs in 1943, but non-essential traffic will have to be further curtailed. Better integration of highway and rail transportation is a prime objective.

The speech was titled "Steps Against Inflation," but the James F. Byrnes' radioed address had as its core a plan to put more money into wage-earners envelopes, and now Washington is busy explaining away that paradox of anti-inflation economics.

More money for workers means evening the production-market balance, runs one explanation which seems to overlook the fact that the ordinary day laborer is a poor prospect for planes, tanks and guns — if he could, in fact, procure them.

Appraising The Annual Reports and Balance Sheets

PART III

BY J. C. CLIFFORD

THE 1942 earnings reports are now coming to hand thick and fast, with many from prominent companies whose shares are widely owned by investors.

Let's start this article with F. W. Woolworth Co. Few are more widely or favorably known both to investors and to the public. To the public, "Woolworth" calls to mind those red-front stores in which you can buy an amazing range of things at very low prices. To investors, "Woolworth" means (1) the famous enterprise in which a great American family fortune was built, and (2) the stock which so long and regularly paid dividends of $2.40 a year (almost like interest on a good bond) that the war-time dividend cut to $2 in 1941 and $1.60 last year was really news, rather than a routine financial item.

On the whole, Woolworth had a good year—better than many analysts had expected. Sales, operating profit and net profit before taxes broke all former records—but so, of course, did taxes also. Due to heavily increased taxes, net per share receded to $2.43, against $2.69 in 1941. This was the lowest per share figure in a great many years—in fact since the deep depression year 1932, when $2.27 per share was earned—but was quite comfortably in excess of the $1.60 dividend rate.

It should be noted that Woolworth, like a great many other companies that are not in "war business" in any sense, is hit much harder by the "excess profits" tax than most investors realize. Provision for it was $12,000,000, well over $1 per share of earnings and substantially in excess of income and capital stock taxes. One thing to keep in mind is that at least the excess profits tax will come off in due time after the war. Given adequate volume, Woolworth—with a broadened range of merchandise and improved operating methods — should eventually recover an earning power of $3 to $3.50 a year and go back to proportionately higher dividends.

It is interesting to note that Woolworth was one of the first stocks to be regarded—by the market—as a "war casualty." The first question, arising in 1940, was whether the Germans could take England and what would happen to Woolworth, Ltd., in which Woolworth has a majority investment carried now at the written-down value of about $31 million and from which it received dividends before the war exceeding $8 million a year (reduced last year to about $4.4 million). Worry on that score proved much over-done.

Next came the period of worry about the dividend. That was well-founded, but while the second, and probably final, reduction had been made by July, 1941, the stock did not hit bottom until early May 1942 at ½ point below the historic low of the great bottom year 1932. Today people are rather confident of the dividend but wondering whether the company can get enough merchandise to maintain sales satisfactorily, since Woolworth handles an important volume of "hard goods." The answer to this is not easy but is worth consideration because practically all merchandising enterprises have the same—or a generally similar—problem, and there are very few investment portfolios that do not contain merchandising stocks.

Woolworth turns over inventory at an *average* rate of about 6 times a year. The annual report states that present inventory—$60,586,000 at the end of 1942 against $67,782,000 at the end of 1941—is "in line with the governmental inventory control regulations." In other words, the problem—common to all merchandising—is one of continuous new supply, since this inventory, on an average, is completely disposed of every two months. In fact inventory at the year end was equal to sales for approximately 1.7 months at the average monthly sales rate of 1942.

COMPANIES AMONG THE MINORITY REPORTING INCREASES IN 1942 EARNINGS

Company	1942	1941
Commercial Solvents	$1.27	$ .99
Sharp & Dohme	1.31	1.14
Sundstrand Machine Tool	7.60	6.23
Superior Steel	8.63	5.77
Woodward Iron	3.85	3.01
Goodyear Tire	5.46	4.68
Standard Oil of Kansas	4.59	3.93
Western Union	8.95	7.05
Belding Heminway	1.56	1.43
E. W. Bliss	7.58	5.63
Reading Company	8.92	4.66
Atchison, Topeka & Sante Fe	27.79	9.90
Atlantic Coast Line	27.46	13.51
Lamson & Sessions	2.91	2.33
Van Norman Machine Tool	4.77	3.06
Hazeltine Corp.	4.45	3.46
Westmoreland Coal	7.50	4.03
Allied Laboratories	1.80	1.36
Granite City Steel	1.61	1.25
Rustless Iron & Steel	2.76	2.42

VARYING IMPACT OF TAXES

Company	Taxes Per Share 1942	Taxes Per Share 1941
Amer. Car & Foundry	$64.27	$3.69
Atlas Powder	19.70	20.27
Bethelem Steel	50.76	28.57
Bigelow-Sanford Carpet	6.50	9.80
Bristol Myers	5.32	2.93
Caterpillar Tractor	8.15	4.50
Continental Baking	2.10	1.16
Continental Can	2.10	1.65
Devoe & Reynolds	2.39	2.17
Dresser Mfg. Co.	8.81	3.26
Flintkote	5.14	2.72
Hercules Powder	15.58	10.56
Howe Sound	3.10	3.38
Industrial Rayon	6.07	4.49
Inland Steel	14.60	14.24
Interlake Iron	1.02	0.82
Johns-Manville	18.74	12.22
Jones & Laughlin	19.17	11.54
Liggett & Myers "B"	7.28	5.30
Loew's Inc.	4.16	2.25
Mathieson Alkali	1.75	1.39
Murphy (G. C.) Co.	13.41	8.39
National Steel	13.80	9.03
North Amer. Aviation	9.53	2.89
Owens-Illinois Glass	6.92	3.27
Purity Bakeries	2.80	0.96
Reynolds (R. J.) Co. "B"	2.65	2.05
Sutherland Paper	4.04	2.64
U. S. Pipe & Foundry	7.04	4.03
U. S. Steel	17.85	13.64
Woolworth (F. W.) Co.	2.27	1.41

The company makes no promises on prospective supply of goods, or anything else, but observes that its buyers in many instances have been able to find substitute materials or otherwise to replace non-procurable items with new lines of goods not formerly carried. This change in character of goods handled is going on throughout the merchandising field, and is a reminder of the ingenuity characteristic of good business management when it has to meet new problems. Finally, it may be noted that Woolworth, along with quite a few other merchandising companies, improved its liquid position substantially during the year—with cash or equivalent up about 64 per cent and net working capital up from about $60.7 million the year before to $65.5 million.

Corporate Fiscal Strength Preserved

While a great many corporate reports show a decline in working capital ratio during the year, this was most generally true of companies with extraordinary increase in volume incident to war work; and in a majority of cases cash or equivalent was increased. In other words the fear of a drastic weakening of the financial strength of corporate enterprise — much emphasized when the present taxes were under discussion last year—has not been borne out.

The United States Rubber Company report is rather surprising in some respects. Consolidated sales of about $291 million were 8 per cent less than in 1941, but the figure did not include volume of plants operated for the Government on a cost-plus-fixed-fee basis. Both sales and profit were reduced by provision for repayments to the Government due to contract renegotiation, the amount of this obligation being included in liabilities shown on the year-end balance sheet but without specific itemization.

Contrary to experience of various other rubber goods manufacturers, net *operating* income for the year increased only modestly—from $34 million to $35.5 million. The big blow to earnings, however, was due to write-off of $15,487,000 for foreign war losses, the company's extensive rubber plantations in the Far East presumably representing a total loss. As a result, net income for the common fell to $1.82 a share, against $4.86 in 1941. With no such write-off this year, earnings should be sharply higher, but as to even roughly how much they may be up you will have to wait and see. Due, presumably, mainly to the loss write-off, income and excess profits taxes were over $7 million less than in 1941 when tax rates were far lower than for 1942. This year the company's taxes figure to make up that $7 million and quite a bit more besides. Add possible future contract renegotiation to this and what U. S. Rubber might earn this year becomes anybody's guess. The stock market, in which this equity has been making new recovery highs right along, is not even trying to guess. Bullishness on U. S. Rubber, and on all bull-trend stocks, is predicated mainly and rightly on post-war potentials rather than war-time earnings, whether up or down.

How Taxes Affect Earnings

In the opposite direction an interesting example of the point made in the preceding sentence is provided by the annual report of the American Car & Foundry Company. This is an old and excellently managed company but it is in the "prince and pauper" railroad equipment industry, the past earnings record has been unimpressive, the present war-goods volume and earnings are abnormally favorable in really extraordinary degree, and investors are united on the belief that the post-war prospect is "uncertain." Net earnings were equal to approximately $12.09 per share of common, against $5.23 the year before—and this after setting aside a contingency reserve equal to more than $9 per share and paying taxes equal to approximately $64 a share! In other words, profit before taxes and contingency reserve was over $85 per share. That's high finance in war time—and a lot of bookkeeping.

The company recently paid a $1 common dividend, the first in some time and the stock in this bull market is now around $33 or well under 3 times 1942 net per share. The report does not indicate how provision for post-war excess profit tax refund was handled, but it appears to figure around $5 per share. Assuming another two years of war the accumulated post-war tax refund will be a very tidy "rainy day" nest-egg, but whether stockholders will get any of it is something that this writer—and nobody else—can predict.

The report of Commercial Investment Trust reflects the radically changed position of this enterprise under war-time conditions. During the year its volume of business—as represented by consolidated net volume of obligations acquired—declined to $799,409,000, from record high level of $1,638,-679,000 in 1941. This was a decline of about 53 per cent; while retail installment receivables out-

standing at the end of the year showed a drop from $449,104,000 as of the end of 1941 to $131,546,000 or decline of about 71 per cent. Yet net income per common share was $3.96, against $4.78 in 1941 or a decline of only a bit more than 17 per cent. This relatively good showing for a stock which not so long ago was generally regarded as a notable "war casualty" was made possible largely by sharply reduced operating expenses in the installment financing end of the business, by strongly improved profits by the company's factoring subsidiaries — whose combined volume for the year approximated $572,000,000—and by good earnings of the subsidiary National Surety Corporation, which netted $2,111,000. Although profits of the factoring subsidiaries were not separately stated, they evidently were a major supporting influence on parent company earnings.

Thus, the diversification policy inaugurated some time ago has stood the company in good stead, indeed. During the year the diversification was for the first time carried beyond the financial field into direct manufacturing, with acquisition of the Holtzer-Cabot Electric Co. of Boston; and the Micro Switch Corp., of Freeport, Ill. This is more significant as a trend than in relation to present earning power. Net income of these two subsidiaries totalled only $484,439 and was set aside in reserves rather than being added to C. I. T. net income.

It is probable that this company's earnings have not yet made bottom for the war period, since retail installment financing volume this year will show a further sharp drop, but unless taxes are further raised the $3 dividend looks reasonably secure—taking into account good earnings prospect on activities not adversely affected by the war. Price around 34, though 70 per cent above the bear market low, does not look exorbitant in relation to the company's longer-term potential. Since the continuing gains from diversification may be considered lasting, while the normal installment financing business will recover to former levels or above after the war, the over-all peace-time potential appears excellent.

This and other reports confirm an opinion previously expressed in this publication: namely that the war pressures will greatly accelerate the general trend toward more diversified corporate operations, with the full fruits of it to be seen after the war as managements strive to put to profitable uses the new or expanded plant facilities and the new technical operating skills and knowledge acquired during the war. In some cases this will go so far that familiar company names—for example General Tire & Rubber Co.—will no longer be more than partially indicative of the nature of a company's business.

REPRESENTATIVE COMFANIES REPORTING SUBSTANTIAL DECLINES IN 1942 EARNINGS

Company	1942	1941
Monsanto Chemical	$3.75	$4.90
Westinghouse Air Brake	1.33	1.91
United States Rubber	1.82	4.86
Consolidated Edison	1.79	2.00
Beneficial Industrial Loan	1.99	2.35
General American Transportation	3.27	3.75
National Biscuit	1.19	1.37
Sterling Drug	4.04	4.96
Allen Industries	1.42	1.66
American Gas & Electric	2.21	2.72
Continental Can	1.77	2.62
General Cigar	2.36	2.78
Acme Steel	5.26	9.65
American Can	4.03	6.45
American Telephone	8.62	10.01
Commonwealth Edison	1.74	2.10
Detroit Steel	2.46	3.98
Raybestos-Manhattan	2.58	3.27
Best & Co. (Yr. to Jan. 31)	2.72	3.49
Commercial Investment Trust	3.96	4.78
Crucible Steel	7.26	12.95
Cluett, Peabody	3.34	4.14
U. S. Gypsum	4.27	5.42
Western Auto Supply	3.16	4.26
Woolworth	2.43	2.69
American Brake Shoe	3.22	3.56
Archer-Daniels-Midland	2.99	3.75
Bigelow-Sanford	3.51	6.01
Kroger Grocery	2.53	2.71
American Radiator	.52	.73
Caterpillar Tractor	3.76	3.92
Commercial Credit	3.55	4.65
Underwood Elliott Fisher	3.04	5.09

Other Satisfactory Annual Reports

For U. S. Gypsum Company the large war-building activity did not offset sharply lower residential building, with the result that operating profit was about 10 per cent lower than in 1941; and, with taxes slightly higher in total, the net per share fell to $4.27, against $5.42 the year before. Due to lower war-building this year, there will no doubt be a further earnings shrinkage which could be substantial in case corporate taxes are further raised. On the bright side, liquid financial strength and working capital ratio were substantially improved.

National Biscuit Company—an old-time investment favorite—earned $1.19 a share against $1.37 in 1941, a rather creditable performance considering that taxes of $13.8 million were $5.2 million larger than the year before. Nevertheless, out of a sales expansion of about $48 million or about 40 per cent, the company got a decline of about 13 per cent in net for the stock. It is questionable whether last year's pace of sales gain can be continued, and this company would be quite vulnerable to either a slackening in sales or further rise in operating costs and taxes. Cash items on the balance sheet were only nominally changed and characteristic strong working capital position was maintained although ratio of current assets to current liabilities declined somewhat.

Monsanto Chemical is to be praised for providing stockholders with an unusually complete and simple breakdown of its income statement. Operating profit of $15,791,000 was nominally lower than in the year before but was 22.8 per cent of net sales, against 24.9 per cent in 1941. On a big volume this apparently moderate difference in profit margin is important. Due to substantially higher taxes, net income was down to 8.1 per cent of sales, versus 10.7 per cent the year before, amounting to $3.75 per share against $4.90 in 1941.

Commonwealth Edison is typical of what happens to a good operating electric utility under war conditions. Operating (*Please turn to page* 615)

VIEWS AND NEWS ON BONDS

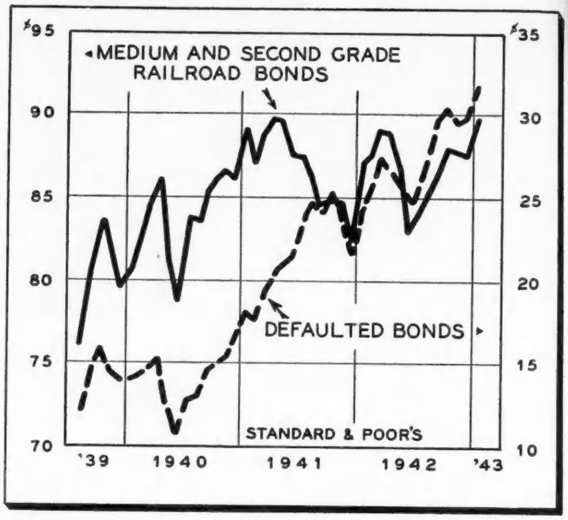
BY OWEN ELY

ALMOST all branches of the bond market have made a good showing recently. Due to the scarcity of new offerings, municipals have crept up slightly to around their 1942 high levels—though still somewhat below the 1940-41 tops. The average yield of 20 high-grade bonds is now slightly under the 2.20% level compared with former all-time peak of about 1.92%. Short term issues continue to sell below the 1% level. Taxable Governments continue to offer a yield of about 1/8 to 1/4% above municipals and Government tax-exempts. Corporate "money" bonds continue to be practically pegged around a 3% average yield for rails, 2.7% for utilities and 2.6% for industrials.

* * *

Principal interest in the listed bond market has centered in the borderline and defaulted rail issues, with volume of trading at the best levels in some years. The Dow-Jones defaulted rail average is now around 24½—up about a third in the past year, and over double the 11.85 level of two years ago. January revenues for principal Class I carriers averaged 37% over last year. Rail wage discussions have bogged down, and new attempts at mediation will probably delay a decision for some weeks or months; but no rail strike seems threatened. The OPA's attempts to have last year's rate increases cancelled seems unlikely to succeed; the ICC implied suggestion that increased revenues be segregated and used for debt reduction would of course be a happy solution from the viewpoint of security holders. A decision on rates also seems unlikely for several weeks at least.

Defaulted rail bonds have enjoyed three distinct waves of buying interest in the past two years. First, the speculative public realized the hidden values in these bonds, through the publicity given by a few Wall Street houses to the values in the new when issued securities to be received under the plans. (2) Later these reorganization time-tables were disrupted by the Court of Appeals in the St. Paul and Northwestern cases, delays in the Mop and New Haven plans, etc—but the huge earnings which began rolling in permitted substantial payments on interest arrears. (3) After the second factor had been pretty well discounted, the idea of retiring defaulted bonds through tenders appeared. The payment of 16 for the Seaboard All-Florida bonds (which had sold as low as 3¼ a few months earlier) again whetted market interest in junior rails. The new B. & O. calls for tenders have sustained this interest, and it is generally thought that other calls for tenders will be forthcoming as soon as the long-awaited Supreme Court decisions are handed down.



There is still a good deal of conjecture as to why so-called border line rails such as Central refundings and Sopac debentures, don't make more progress on the up-side. Insurance companies and savings banks have greatly reduced their portfolios, but the commercial banks are doubtless still liquidating their holdings. If these institutional sales should eventually dry up, it appears likely that second grade rails would advance sharply.

Investors looking for large income with a high degree of current safety can still find excellent bargains in these "border-line rails." Thus Southern Railway General 6s/56 still yield about 6.6%, Atlantic Coast Line 4½/64 about 6.8%, Southern Pacific 4½/69 over 8%, New York Central Refunding 4½s about 8.7%. Most of these companies have strengthened their financial position sufficiently to withstand the ravages of any immediate post-war depression, though of course the longer pull outlook might still be open to some doubt.

* * *

Interest in "liquidating" utility bonds has been stimulated by hopes that the SEC would modify its harsh attitude toward these companies or that Congress might intervene by modifying Section 11 of the Utility Act. The SEC recently gave permission to American Power & Light to use $10,000,000 to buy in its debentures; this was reflected in increased interest in the longer term Electric Power & Light 5s. The second and third grade issues like International Hydro-Electric 6s and Associated Electric 4½s have also been increasingly popular.

New corporate financing continues at low ebb. In the past year or so utility companies have furnished Wall Street with a (*Please turn to page* 616)

1943 SPECIAL

Re-Appraisals of Earnings and Dividend Forecasts

PART III

Outlook for Individual Stocks, Building Shares, Liquors, Non-Ferrous Metals and Merchandising Issues

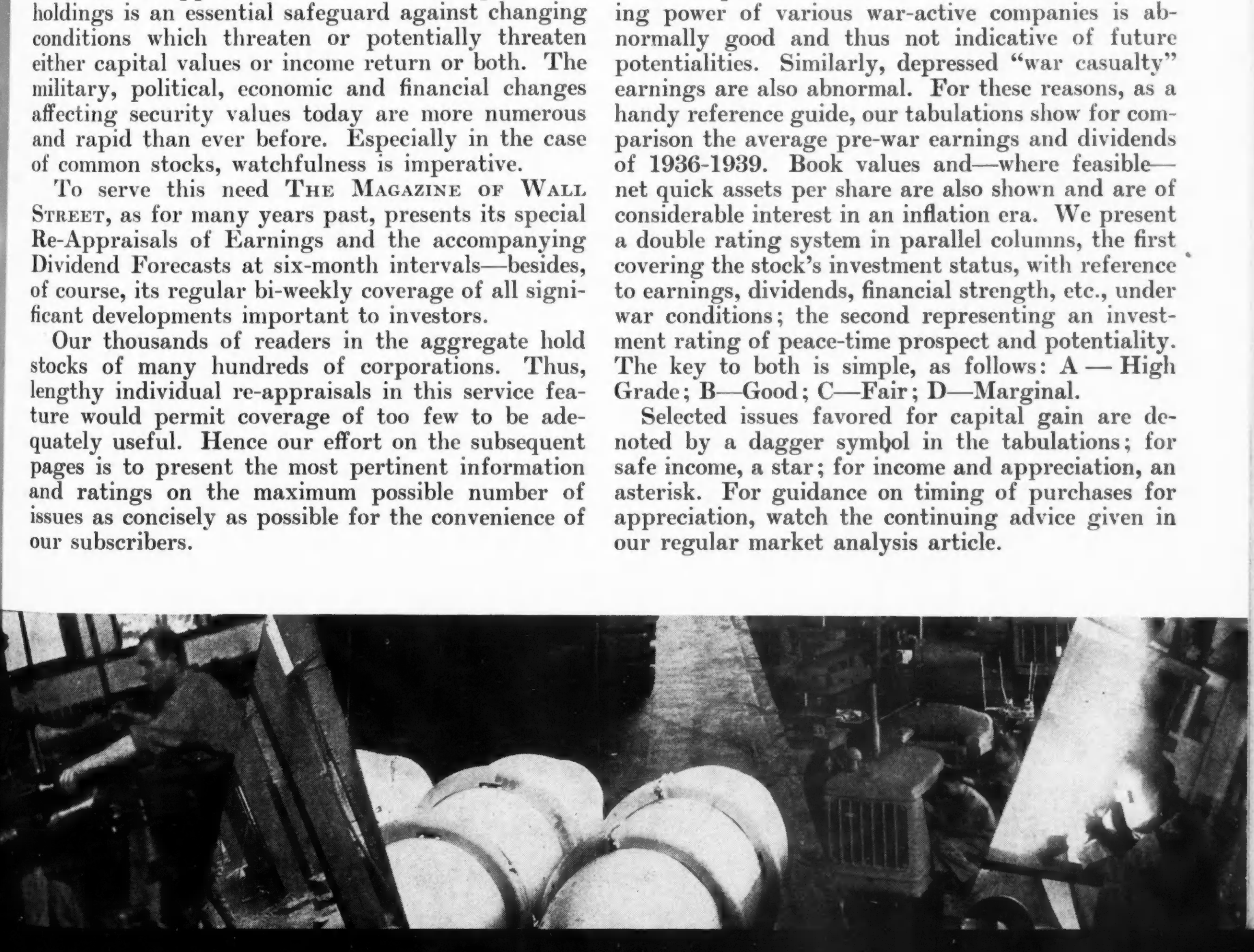
PERIODIC re-appraisal of investment and speculative holdings is an essential safeguard against changing conditions which threaten or potentially threaten either capital values or income return or both. The military, political, economic and financial changes affecting security values today are more numerous and rapid than ever before. Especially in the case of common stocks, watchfulness is imperative.

To serve this need THE MAGAZINE OF WALL STREET, as for many years past, presents its special Re-Appraisals of Earnings and the accompanying Dividend Forecasts at six-month intervals—besides, of course, its regular bi-weekly coverage of all significant developments important to investors.

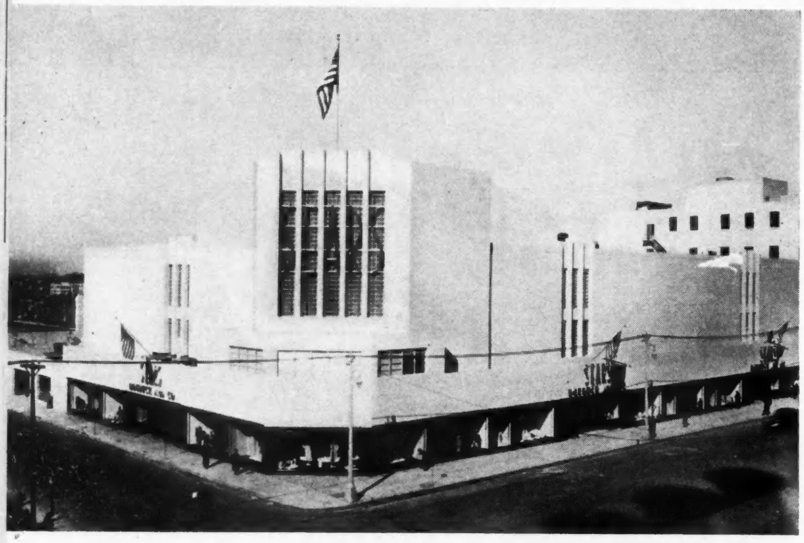
Our thousands of readers in the aggregate hold stocks of many hundreds of corporations. Thus, lengthy individual re-appraisals in this service feature would permit coverage of too few to be adequately useful. Hence our effort on the subsequent pages is to present the most pertinent information and ratings on the maximum possible number of issues as concisely as possible for the convenience of our subscribers.

It is important to bear in mind that current earning power of various war-active companies is abnormally good and thus not indicative of future potentialities. Similarly, depressed "war casualty" earnings are also abnormal. For these reasons, as a handy reference guide, our tabulations show for comparison the average pre-war earnings and dividends of 1936-1939. Book values and—where feasible—net quick assets per share are also shown and are of considerable interest in an inflation era. We present a double rating system in parallel columns, the first covering the stock's investment status, with reference to earnings, dividends, financial strength, etc., under war conditions; the second representing an investment rating of peace-time prospect and potentiality. The key to both is simple, as follows: A — High Grade; B—Good; C—Fair; D—Marginal.

Selected issues favored for capital gain are denoted by a dagger symbol in the tabulations; for safe income, a star; for income and appreciation, an asterisk. For guidance on timing of purchases for appreciation, watch the continuing advice given in our regular market analysis article.



Mixed Sales and Profit Outlook For Merchandising Stocks



Stock market status of all groups will remain largely geared to peace time prospects.

There are so many cross-currents in retail trade today that it is becoming more and more hazardous to forecast the outlook for 1943. However, the action of the retail stocks on the Stock Exchange indicates that investors are not seriously disturbed by the temporary war time problems confronting the industry but are giving greater consideration to the post-war outlook when present artificial restrictions may be removed.

Current headlines indicate that racketeers of the prohibition era have discovered a lush field of activity in the new black markets in meats, butter, etc. Housewives in Chicago alone are said to be contributing to black markets in meat at the rate of $50,000,000 a year. However, few of the retail chain stores listed on the Stock Exchange are concerned with the distribution of meat. A black market in butter, feared as a result of the new OPA price ceiling, might affect the grocery chains slightly, It remains to be seen whether black markets in canned goods could exist after rationing begins—this seems much less likely.

In any event, the chain grocery stores—American Stores, Butler Bros., Food Fair, Grand Union, Great Atlantic & Pacific, Jewel Tea, Kroger, Safeway and National Tea— seem somewhat more vulnerable in 1943 than in 1942 to a continued "squeeze" of profits, shortages of goods, difficulty with labor, etc. On the other hand, with small independent stores closing and consumers' income rising, dollar sales may be fairly well maintained, and some of them are introducing new side lines. Investors do not seem to be particularly worried over the outlook, as food chains are still selling somewhat nearer their 1942 highs than the lows. However, those considering purchases in retail trade stocks might well pass this group by; and those who now hold them might consider switching to selected department store issues facing less than average supply difficulties.

Restaurant versus Grocery Chains

Restaurant chains such as Bickford, Childs, Horn & Hardart, Shattuck and Thompson may fare somewhat better than the grocery chains, as "ceilings" do not seem to apply to their menu prices and the more limited choice now being offered to customers may reduce costs. However, if the present threatened food shortages develop and the restaurants have to buy some of their foods in the "black markets" the advantages gained through ceilings on canned goods may be offset by the high cost of meat —although poultry and fish may be substituted to some extent. Moreover, rationing will hit the restaurants to some extent and pose culinary problems.

The mail order and general chains such as Montgomery Ward, Sears Roebuck, Grant, Penney, etc. have acted very well marketwise in recent months considering the growing shortage of certain merchandise lines. Apparently these stocks have been bought for peace prospects, on the theory that consumer purchasing power will remain excellent for several years after the war and that some of these companies will be able to do a huge business in "hard lines" because of the consumer "vacuum" which is being built up.

Leading stocks in this group are selling currently

well above last year's high level, the average advance from last year's low level being over 50%. The move appears to have been a little overdone temporarily, in our opinion.

The "5¢ and 10¢" chain store stocks have also been quite popular recently, the recent level being about 45% over last year's low and 12% over the high. These companies are less affected by priorities, because they sell few of the heavier lines and they are very ingenious in substituting new items for those where shortages exist (such as small tools, kitchen ware, etc.). Most of these chains are expected to report lower earnings for 1942 than in 1941 due to taxes, but 1943 should probably show fair stability unless the tax load is increased. Of course these companies, which employ a great deal of low-salaried sales help, may suffer from competition with munitions plants, etc. and labor costs may show a considerable advance, though taxes will absorb a good part of this burden. The outlook should be brighter for the post-war period, when labor will be more plentiful.

Drug stores account for about 4% of our retail business (but the chains handle only about one-quarter of this) and enjoyed a sales increase of nearly 20% last year, but sales are likely to recede this year. 1942 earnings probably held up well but 1943 may deteriorate somewhat. The drug chains—Peoples Drug, Walgreen and United Drug—will benefit in 1943 by the shortage of doctors, at least so far as the regular drug departments are concerned. Ordinary prescriptions and prepared medicines account for only about two-fifths of the druggists' business—probably less in the case of some of the chains, but this should be much heavier under current conditions. On the other hand, the chains may have to find substitutes for some of their electrical gadgets, jewelry and other miscellaneous sales items, and the supply of ice cream and candy will be cut down. Some chains are going in heavily for parlor games, glassware and even clothing in order to maintain sales. They are having their trouble with counter men and soda jerkers due to the labor turnover—some are resorting to self-service.

Auto Store Chains Add New Lines

The auto chain stores such as Western Auto Supply, Firestone's retail outlets, Strauss, etc. are of course harder hit than other chains, must move quickly for diversification. Strauss is going into the clothing business while Western Auto is going in for men's sport and work clothes, camp equipment, etc. Western's earnings for the third quarter of last year were down nearly one-half, so the stock doesn't look particularly interesting except for long term "peace" prospects; it declined from 40⅞ in 1940 to a 1942 low of 12¾, but has since recovered to 20.

The greatest market interest in the retail group now centers in the department store stocks, because of their availability at varying prices from around 1¾ (Crowley Milner) up to 43 for May Department Stores. There are six department store chain stocks, mostly in the low-priced range — Allied Stores, Associated Dry Goods, City Stores, Federated Dept. Stores, Interstate Dept. Stores and National Dept. Stores—Gimbel might also qualify as a chain, since it controls three stores in New York City and a number outside New York. There are in addition two extensive chains in ladies apparel, Lerner Stores and Mangel Stores, both of which operate throughout a good part of the United States. Companies whose operations are mainly confined to one large store in New York inclues May, Best and Macy (whose stocks have some investment quality), Oppenheim Collins, Bloomingdale, and Arnold Constable. In Chicago there are Mandel Bros., Marshall Field and The Fair; in Pittsburgh, Kaufmann Dept. Stores; in Detroit, Crowley Milner; in San Francisco, Emporium Capwell. A few department stores including Oppenheim Collins & Co. did fairly well last year, but the majority probably lagged behind 1941. This was despite a probable increase in sales for the year, averaging about 12%.

Department Stores Sales Higher

According to the Federal Reserve Board statistics, department store sales in the week ended February 13th were 45% higher than last year; in the preceding week 19% greater and in the four weeks period ended the 13th, averaged 16% more than in 1942. The big recent buying splurge varied greatly however—New York City with its small proportion of war work gained only 22%, while Dallas was up 107%, Kansas City 85%, San Francisco 57%, Chicago 45%, etc.

This sharp spurt was undoubtedly due mainly to buying of clothing, which resulted from the sudden announcement that shoes would be rationed. This buying wave was denounced by Chairman Nelson of the WPB. Apparently clothing rationing is not immediately in the offing, but such heavy buying is the best way to bring it about.

The department stores last summer, according to

indexes of inventories, had about 70% more merchandise on hand than in the previous summer. This surplus has been rapidly cut into, however, and in November the surplus over the previous year was only about 10%. It appears likely that with present heavy buying inventories may be falling below last year.

As contrasted with the excellent sales showing made by the department stores, other retail groups made a less favorable showing in January: three mail order companies were down 14%; eleven variety chain stores, up 7%; one general chain (Penney), down 3%; five grocery chains, up 5% (however, results varied widely, Kroger being up 19% while Safeway was down 5%); four drug chains, up 14%; one shoe chain, up 34% while another was down 10%; Western Auto Supply down 38%.

Department store sales comparisons differ widely, but some of the big chains probably did well in January, Interstate showing a gain of 20%, Lerner 27%, Lane Bryant 19%, etc. The present volume of sales will probably not be maintained; during the second half of the year shortages may begin to influence volume adversely. However, the large department stores will doubtless have an advantage over the small retail stores, since they have greater buying resources and more power to "hoard" inventories. Profit margins this year will doubtless be dependent somewhat on the strictness with which OPA ceilings are enforced or adjusted. However, the pressure of competition has been somewhat reduced. The large volume of sales, as well as the possible reduction of advertising appropriations, are favorable factors; rising labor costs are unfavorable, but the public will doubtless be satisfied with poorer service.

Regarding the long-term outlook, department stores can be included in the so-called "peace" group, since they should benefit by the release of consumer purchasing power after the war. Merchandise previously unobtainable can be gradually replenished (with the exception of foreign goods, on which there may be considerable delay).

The popularity of the mail order and department store stocks, despite the current and prospective difficulties with price ceilings, narrow profit margins, labor turn-over, shortage of merchandise, etc. may be due to the feeling that these stocks constitute a good "inflation" hedge. In the past the so-called inflation groups have usually included the metals, oils, sugars, leathers and other commodity stocks. But the department stores (and in less degree the general chains) should also be able to benefit by any inflationary post-war trend. With their comparatively short turn-over in many lines, and assuming that more stringent price regulations are lifted after the war, they should be able to pass along to customers any post-war rise in prices; and by "holding back" on sales of certain merchandise, they can obtain inventory profits where costs of goods have risen enough to permit "mark-ups."

Effects of Inflation on Sales

We have already seen how the stores can benefit by a buying rush due to the prospects of rationing, and the same would apply to any inflationary urge to convert money into goods. The record of inflation in Germany and other continental European countries after the other war seems to bear this out, it is reported. In 1918-19, during our own post-war inflationary period, department store stocks made a good showing marketwise as compared with other groups.

Holders of retail trade stocks have a variety of problems and factors to consider. The department store and general chains seem to be in about the best market position, with mail orders next, while grocery and auto chain stores seem definitely vulnerable to the "black markets."

Position of Leading Merchandise Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Allied Stores	12.85	(a)	0.79	2.27(b)	2.00E	0.05	0.45	C	C	Goods shortages may affect later 1943 operations. Company has good earnings record, which should be maintained after the war. Further dividends probable this year.
American Stores	23.30	12.70	0.71	1.66	1.15E	1.00	0.75	C	C	Operates large food chain. Competitive position improved. Stability will feature earnings in future years. Usual $1.00 dividend basis expected.
Arnold Constable	12.76	8.08	0.85	1.29(b)	1.35E	0.75	0.75	C	C	Deals chiefly in women's apparel. Position in New York City area excellent. Extension of recent general earnings gains probable in peace years. $0.50 dividend basis seen for 1943.
Best & Company	38.16	15.03	3.83	3.49(b)	3.25E	2.65	2.00	C	B	Feminine apparel is chief line. Trade and financial positions are strong, and usual excellent earnings and fairly liberal dividends are anticipated in future.
Davega Stores	8.80	1.60	0.52	0.72(c)	0.70E	0.62	0.50	D	D	War factors may affect near-term activities, but normal excellent sales status suggests good post-war profits. $0.50 common dividends probable this year.
*Federated Dept. Stores	30.82	20.94	2.36	2.79(b)	2.40E	1.50	1.50	C	B	Component stores prominent in respective areas. Good earnings record should be continued after war. 1943 dividends should approximate $1.50 on common.
*First National Stores	30.80	19.53	3.60	2.91(c)	2.75E	2.75	2.50	C	B	Most stores in New England. Near-term profit margins probably smaller, but longer outlook generally good. Usual $2.50 dividends anticipated.
Gimbel Bros.	26.06	4.50	0.55	2.08(b)	1.85E	None	None	d	d	Improved operating efficiency may result in less erratic earnings in future years. No common dividend indicated for near future.

Position of Leading Merchandise Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
*Grant, W. T.	27.18	10.74	2.86	3.45(b)	3.00E	1.26	2.00	C	B	Goods scarcities may affect 1943 results. Customary stability will probably feature post-war profits. Dividends, paid since 1907, should continue at $1.40 rate.
Green, H. L.	17.87	4.45	3.03	3.95(b)	3.50E	2.12	2.50	C	B	Company, operating in U. S. and Canada, has excellent earnings and dividend record, which should be extended in years ahead. $2.50 payments seen for 1943.
Interstate Dept. Stores	14.66	9.65	1.10	3.23(b)	2.75E	0.81	1.00	C	C	Output well-diversified. Customers chiefly in low-income groups. Long-term sales prospects satisfactory. $1.00 common basis expected for 1943.
Jewel Tea	14.57	6.12	5.58	2.60	2.03	2.79	1.80	C	B	Near-term sales outlook unfavorable. Strong basic position should enable usual good peace-time earnings. $1.60 common payments probable this year.
Kresge, S. S.	8.80	1.95	0.21	1.72	NE	1.29	1.15	C	B	Inventory factors may affect later 1943 operations. Strong trade status should mean stable future profits. $1.00 dividends expected for 1943.
*Kress, S. H.	27.78	7.00	1.98	1.99	2.13	1.20	1.60	C	B	Improved operating efficiency and industrial growth of South are favorable long-term factors. Regular $1.60 dividends expected.
Lerner Stores	20.99	4.00	4.32	3.47(b)	4.25E	2.00	1.00	C	C	Large factor in women's apparel. Lower 1943-44 net probable, but long time outlook good. $2.00 common payments likely this year.
Macy, R. H.	36.74	10.48	2.08	2.20(b)	1.84(e)	2.19	1.67	C	C	While some shortages may hurt near-term net, strong trade position should mean customary good profits in future years. No change in $2.00 basis in prospect.
Marshall Field	19.97	(a)	0.83	1.95	1.50E	0.07	1.00	C	C	Has largest Chicago store. Textile division at high levels. Further basic earnings improvement anticipated. $0.80 basis, plus extras, seen for 1943.
*May Dept. Stores	42.56	17.88	3.70	3.76(b)	3.25E	3.31	3.00	C	B	Able management and strategic store locations have been reflected in excellent earnings. This should continue. Usual $3.00 dividends likely.
McCrory Stores	12.05	(a)	1.87	2.24	1.90	0.56	1.00	C	C	Increased operating efficiency expected to result in further cyclical profits gains. Finances sound, and $1.00, plus extras, expected this year.
McLellan Stores	6.82	2.08	1.11	1.42(b)	1.35E	0.69	0.60	C	C	Geographical store diversification good. Stability of profits, rather than much expansion, seen for future years. Usual $0.60 common payments likely this year.
Melville Shoe	7.13	2.82	4.75(f)	2.64	2.50E	4.25(f)	2.00	C	B	Rationing may affect near-term sales. Deals chiefly men's shoes, with few style changes. Peace outlook good. $2.00 common dividend basis seen for 1943.
*Montgomery Ward	41.50	34.29	3.86	4.01(b)	4.35E	2.38	2.00	C	A	Shortages will affect sales for duration. Extension of store systems is aid to long-time prospects. Regular $2.00 common dividend indicated.
Murphy, G. C.	33.83	5.19	5.75	7.20	5.33	3.34(g)	4.00	C	B	Some scarcities may affect later 1943 sales. Trade status strong, and good earnings record should be extended. Dividends, paid since 1913, should continue liberal.
National Tea	16.64	4.53	d1.13	0.56	0.40E	0.23	None	D	D	War factors hampering efforts to strengthen competitive position. Longer term outlook fairly encouraging. No common dividends anticipated.
Newberry, J. J.	45.13	5.57	5.20	6.40	4.85E	2.33	2.40	C	B	Near-term sales drop likely. Moderate expansion policy seen as further extending good earnings record. Usual $2.40 common dividend expected.
*Penney, J. C.	31.83	25.01	6.44	6.24	6.00E	5.50	5.00	C	A	Shortages not serious factor. Operations nationwide. Earnings record commendable. Outlook optimistic. Dividends expected to remain liberal.
Reliable Stores	22.16	20.14	1.52	2.06	NE	0.69	0.50	D	C	Lower sales anticipated for 1943. Dealing in furniture and jewelry, outlook after war is fairly good. $0.50 dividend basis probable for near future.
*Safeway Stores	41.16	4.15	4.32	4.91	p4.06	2.00	3.00	C	B	Lower 1943 net probable. Strong nationwide trade status, and good earnings record, should continue after war. $3.00 dividends likely this year.
*Sears, Roebuck	50.87	31.62	5.49	6.35(b)	5.50E	4.75	4.25	C	A	Leading mail order house. Scarcities may affect profits for duration. Peace-time outlook sanguine. Year's dividends should approximate 1942 payments.
Shattuck, F. G.	16.87	5.85	0.60	0.77	0.75E	0.73	0.80	D	C	Rationing may retard candy sales, but restaurant volume should hold. Small, consistent profits expected in future. $0.60 dividends possible this year.
Spalding, A. G.	7.35	2.91	d2.41	0.86	0.48(i)	None	None	D	D	Making sports goods and military items for armed forces. Earnings record poor, but some basic gain expected in future years. No common dividends in prospect.
Spiegel, Inc.	10.85	10.36	1.54	0.91	NE	0.64(j)	0.15	D	D	Operates in mail order field. Decline in 1943 sales expected. Strong competition seen as limiting growth prospects. Common dividends unlikely.
*Woolworth, F. W.	21.38	3.77	3.19	2.69	2.43	2.40	1.60	C	A	Shortages may restrict 1943 sales. Dominating position should mean consistently good profits in normal times. Regular $1.60 dividend basis expected.

d—Deficit. (a)—None available, because of excessive senior capitalization. (b)—Fiscal year ended Jan., 1942. (c)—Fiscal year ended March, 1942. (e)—12 mos., July; fiscal year changed to end July 31. (f)—Based on old stock; exchanged in Dec., 1939, 1 old for 2 new. (g)—Also, in 1936, 200% stock div. (h)—Plus stock divs. (i)—Fiscal year ended Oct., 1942. (j)—Adjusted for 5-for-1 split in 1937. E—Estimated. NE—Not estimated. *—Recommended for safe income. *—Recommended for income and appreciation. A—High grade. B—Good. C—Fair. D—Marginal. p—Preliminary.

Appraising the Liquor Industry In War and Peace

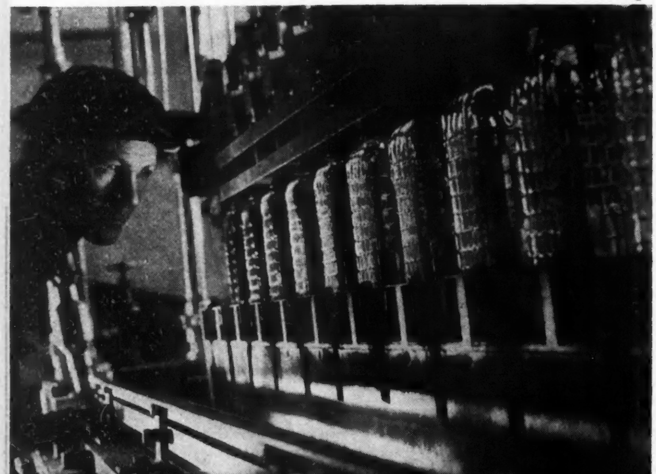
BY HARRY N. BULOW

WITH the complete cessation of liquor production since October 7, 1942, under Government edict, and the conversion of beverage distilleries to the manufacture of 190 proof industrial alcohol, needed for smokeless powder, synthetic rubber, lend-lease, etc., the distilling industry has entered upon a new era. The new era is one which has already had marked effect upon the operations of all distilling companies and which promises to alter permanently its fundamental production and merchandising techniques.

Operations of distillers today center in the sale of previously accumulated inventories of whiskey and in the production of war alcohol on government contract, on the basis of a 24 hours a day, seven days a week, 52 weeks a year schedule. Although the profit per gallon on the war production is very small (approximately three to four cents per gallon), the sharply increased output makes this part of the business a very valuable earnings adjunct to regular activities. It must be remembered that before the war, production by beverage distilleries usually never exceeded a basis of 8 hours a day, 5 days a week and 30 weeks a year due mainly to shortages of water supply in some areas at certain times of the year and to arbitrary state regulations. Hence, today, every distilling company is producing more alcohol than was ever deemed likely before.

Almost immediately after the termination of whiskey production early last Fall, distillers began to adopt programs restricting or rigidly controlling sales. The major element in the trend toward such "controlled sales" policies is the desire on the part of all companies to "stretch" currently estimated 425,000,000 net gallons of whiskey and spirits in warehouses, for the duration of the war and for a reasonable period beyond. In this way, there will be less incentive to bootlegging and there will be no duplication of conditions approximating the 1933-35 period after repeal when raw and immature whiskies were dumped upon the market to satisfy the pent-up demands on the part of the public, which had been purchasing expensive, illicit and usually very poor grade alcoholic products during the prohibition era.

Triangle



Importance of Liquor Rationing

(The above figure of 425,000,000 gallons needs a little further explanation. Actually, at the end of December, there were reported to be some 495,000,000 gallons of aging spirits in barrels in warehouses. This figure represents the quantity of whiskey placed in storage for aging. Since alcohol evaporates with the passage of time, it is calculated that on the basis of Government allowances for evaporation and leakage that the net amount of whiskey currently available is only some 425,000,000 gallons.)

The importance of rationing may be seen from the fact that gross sales of all companies for the calendar year 1942 totaled approximately 175,000,000 gallons. In view of the repeated warnings by the War Production Board that it would not permit distillers to engage in production of alcohol for beverage use until such time as a stock pile of 100,000,000 gallons was arranged after the entire industry has been converted, it appears unlikely that the industry will be able to add to its current stocks which are now being depleted, at least for the next year and a half.

As a result, it is to be expected that no more than 100,000,000 gallons of whiskey will be made available by brand owners for consumption this year. The higher incomes in the hands of low income groups and the consequently increased demands for whiskey, in the absence of expensive durable goods, etc., assure prompt consumption of this total. Hence, the outlook for the year, as far as the available supply to the public is concerned, is for continuing shortages of most liquor items.

The war is expected to have several lasting bene-

fits for the industry. Distillers today do not have the problem of merchandising and selling which formerly occupied much of their time and resulted in "high pressure" low profit sales and deals. Instead, today, their efforts are expended on diversifying their business activities, working on inter-industry unity in an effort to fight Prohibition forces which always are more powerful during war periods, and in dealing with government authorities in the War Production Board on industrial alcohol contracts and in the Office of Price Administration on ceiling prices for their finished products.

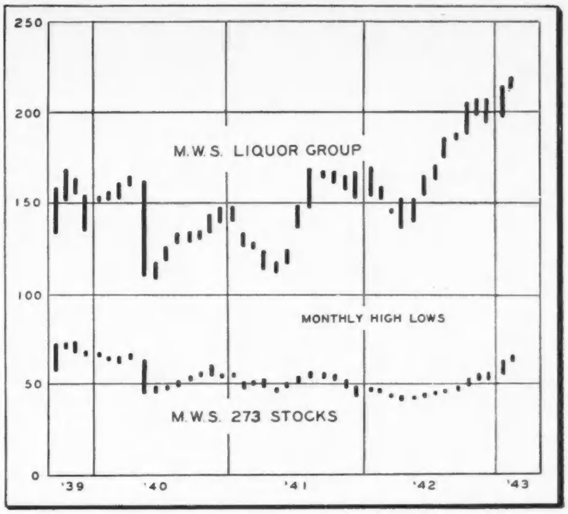
Another recent significant development in the activities of the large distilling companies is their incursion into the American wine business. This has been done for several reasons, primarily in an effort to diversify operations which can be carried on without the addition of large sales forces and for the purpose of entering into a field which holds definite promise for substantial future growth. In this latter connection it is pointed out that wine consumption in this country approximates only 0.75 gallons per capita contrasted with the more than 15 gallons per capita consumed in such countries as France and Italy.

Distillers Dominate American Wine Trades

The recent wine acquisitions include Schenley's purchase of assets of three of the largest wineries in the country (The Roma Wine Co., Central Winery, Inc., and Colonial Grape Products Co., to add to their previous holdings of Cresta Blanca Wine Co.); National Distillers acquisition of Italian Swiss Colony Company; Seagram's purchase of Mt. Tivy Winery, Inc., among others. As a result of these purchases to add to previously acquired wine inventories and crushing facilities, distillers are now the dominant factors in the American wine business, although they do little actual grape growing.

The very heavy levies of Federal corporate income taxes have tended to make the distiller's position quite different from what it has ever been before. Virtually all companies are subject to excess profits imposts, and in view of highly profitable war contracts, there is little incentive to promote sales of normal lines. As a matter of fact, distillers no longer finance wholesalers with the 60 to 90 and even 180 days credit which formerly characterized their operations. Since they do not have to raise money for this phase of their activities, since they are not replacing whiskies in storage, and since the government is paying every 30 days for alcohol which it purchases from distillers, most distillers find their cash positions have become very large. In a number of instances, debts are being rapidly retired and money is being spent on new activities such as entrance into the wine business, the development of chemical research to aid in the processing of farm products and distillery waste material and on other similar activities.

One of the more serious problems in the outlook for distillers is the problem of high excise tax rates. Current rates are at the all time peak of six dollars



per proof gallon. It is feared in industry circles that under the exigencies of war and the Federal Government finance requirements, this rate may even be raised to as high as eight or ten dollars a proof gallon, or to $2.50 per quart of 100 proof whiskey. Naturally, such a tax rate would tend to deter consumption to a considerable extent. While no studies are available as to what the saturation rate is for liquor excise taxes, it is believed that a rate of ten dollars definitely would witness a marked reduction in consumption of legally produced beverages. However, the problem may be eased by the lowering of proof and the gradual shift from the quart bottle to the fifth size bottle. Such a change would not necessitate a material markup in price to consumer, although admittedly the strength of the product would not be the same nor would the quantity be as large.

Another important development that must not be overlooked in considering the earnings position of distillery companies, is the fact that during the current war period, facilities are being used at a rate never contemplated when they were constructed. In all probability, should the war last another few years, it would be necessary in post war years to replace a good deal of distillery equipment. In recognition of this, it is believed that the Treasury Department will shortly permit distilling companies to accelerate their depreciation allowance so that they can write off the equipment which is currently being used up.

Concluding the discussion of the war outlook for distilleries, it is perhaps necessary to examine the prospects of a return to Prohibition, since this factor has deterred a number of potential investors from this field. Admittedly, the drys are stronger today than they have been at any time since repeal. Admittedly, there is a latent danger that a sizeable portion of the country might possibly become dry once more. Already, local option tests in a number of areas have witnessed the spread of Prohibition and the activities of such famous dry groups as the Anti-Saloon League, the Women's Christian

Harris and Ewing

Temperance Union, and various church groups, which have more money at their disposal today than ever before to be used in an effort to secure a return to Prohibition. However, the industry has shown a keen awareness of this problem and has, through its two major public relations groups, Allied Industries, Inc., and the Conference of Alcoholic Beverages Industries, Inc., effectively combated the activities of dry groups in a number of areas. The recent report of the Office of War Information on the sobriety of our army and the clean conditions of bars, taverns and restaurants in and around military establishments, attest to the effectivness of their work. In my opinion, there is little likelihood of any return to Prohibtion on a national scale, although local dry groups might, through local option elections, extend dry territories. In no event, however, is it likely the country will be as dry as it was before the federalization of prohibition when, before the first World War, 34 states and the District of Columbia were dry.

During the nine years since repeal, the liquor industry has been faced with a number of important problems, including shortages of aged whiskies, severe Government regulation, a strong dry sentiment in some areas, concentrated selling operations which resulted in costly price wars and now in complete cessation of normal liquor output.

In spite of these difficulties the industry has made material strides forward. Certainly the industry will continue to have vexing problems such as increased taxes, further government regulations, adaption to new lines of endeavor, etc. However, in view of the demonstrated ability of the industry's managements to meet all urgent trials in past years, there need be little fear that these problems will prove too difficult.

From the lowest prices of last year to recent highs, three leading and representative distiller equities on the Stock Exchange were up by an average of about 65 per cent, nearly double the average rise in the market as a whole; and had recovered to more nearly "normal" market levels—as judged by pre-war price range—than had the list as a whole. These results are not happenstance. However, liquor shares are not immune to reaction and obviously are no longer at bargain levels. They probably will continue to command characteristically low price-earnings ratios, and at present levels longer-term investors seeking appreciation should view them both with discretion and circumspection.

Position of Leading Liquor Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Angostura-Wupperman ..	2.00	1.46	0.23	0.21	0.20	0.26	0.20	C	C	Functions as sole American agent for Angostura Bitters. Earnings have been small, but fairly constant, in recent years, and may continue so in future. Finances sound. Dividends this year should approximate 1942 payments.
Austin Nichols	6.00	(a)	d1.25	d1.15Ap	d0.12Ap	None	None	D	D	Distributor of wines and liquors. Past common earnings record poor, but recent gains may be fairly well sustained. Large Class "A" stock arrears ($32.50) preclude payments on the common stock.
Distillers Corp. Seag.....	39.95	23.00	3.35	4.17Jl	5.75Jl	0.87	5.00	C	C	War industrial alcohol output rising. Fiscal year drop in beverage liquor sales expected. Synthetic rubber activities have long term possibilities. Usual $2.00 (U. S. funds) dividends expected.
*National Distillers	25.28	8.00	3.73	3.47	3.37	2.37	2.00	C	B	Plants converted to military alcohol output. Conservative whiskey sales policy being followed. Strong trade status should assure excellent post-war volume. Maintenance of $2.00 dividend basis is probable.
*Schenley Distillers	38.76	31.66	4.26	5.20Ag	4.63Ag	1.81	5.50	C	B	Leading domestic distiller. Increasing activities in wine division. Wartime profits should be fairly well maintained, while liberal participation in peace time business seems certain. $1.00 dividends anticipated for this year.
*H. Walker-G. & W.........	47.09	22.51	7.37	8.78	9.07Ag	2.87	1.00	C	B	Beverage alcohol production discontinued in U. S. and Canada. Facilities devoted to war purposes. Improving trade position reflected in current peak earnings. Peace time outlook optimistic. $4.00 dividend will doubtless be continued.

d—Deficit. (a)—None available, because of excessive senior capitalization. E—Estimated. NE—Not estimated. Ap—Year ended April. Jl—Year ended July. Ag—Year ended August. *—Recommended for income and appreciation. B—Good. C—Fair. D—Marginal.

War Building Volume Past Its Peak

Post-War Potentials Will Outweigh Lower Earnings in Investment Considerations.

WITH military needs and with defense housing requirements in their various ramifications responsible for the huge increase, total construction expenditures for 1942 are estimated at approximately $18.5 billions, of which $13 billion consisted of actual construction within this country, about $3.5 billions in related equipment, while $2 billion were accounted for by building activities in the territories and in other outlying points. The construction volume of $13 billion in the United States set an all-time peak, and represented an increase of 18% over the 1941 aggregate.

The rise in expenditures last year was accomplished in the face of a considerable decline in private building activities. Housing construction, for example, receded over 30%, it is estimated, from the total of 615,000 units built in 1941, traceable directly to the growing scarcity of materials and manpower, which impelled increasingly rigorous Federal control of private building operations as the year progressed. In this connection, a survey prepared by the "Engineering News-Record" is enlightening. This study reveals that engineering construction rose to the unprecedented volume of $9,305,829,000 for the 53 weeks period of 1942 from $5,868,699,000 in the preceding year, and when adjusted for the difference in the number of weeks covered, exceeded the 1941 total by 56%. Federally-financed volume totaled $8,241,088,000, or 88.5% of the engineering construction total, and amounted to 131% more than in the year before. State and municipal work dropped 58% to $508,918,000, while private work decreased 54% to $555,823,000.

R. I. Nesmith & Associates

Molten rock is blown by high pressure live steam into this fluffy, wool-like substance known as Johns-Manville Rock Wool Home Insulation.

Authorities in the construction industry are in general agreement that 1943 will witness a considerable reduction in overall volume, but they express divergent views as to the extent of the probable decline this year. In some quarters it is estimated that the drop in the building of homes, factories and other structures may amount to 50% this year, but the imponderables in the situation make extremely difficult a rational estimate of the overall decline. Among such factors may be mentioned the total of secret military construction outside the borders of the United States. While estimates of such operations cannot be made, it is reported in certain quarters believed to be well-informed that such expenditures will considerably exceed the $2 billion total of 1942. Another important factor is the incessant demand for facilities for the manufacture of aviation equipment, while a third is seen in the requirements for construction of the second long petroleum pipe line (this one to extend from Texas to Indiana).

New Factors

Eventual realization of various 1943 construction estimates must depend not only on the availability of materials for the numerous projects now under contemplation, but likewise upon the sufficiency of manpower. With the number of men received into the armed services being materially expanded, there is considerable doubt that all of these projects can be carried through to completion before the end of this year. Moreover, it does appear certain that Federal control of vital materials will have serious repercussions on private building activities during this year, although the drop in remodeling and in repair work will be less extensive than in the case of new commercial and residential building.

Acknowledging the likelihood of an overall decline in operations of the construction industry, demand arising from various direct military and from defense and related sources will be sufficiently large to assure another year of profitable operations for

leading corporations supplying various types of building materials. This opinion is predicated on the assumption that no important upward revision in Federal corporation taxes will occur during this year. Especially favored in this division of industry, from a standpoint of desirability as holdings for income and price appreciation potentialities are the common shares of Armstrong Cork Co., Celotex Corp., Congoleum-Nairn, Inc., Flintkote Co., Holland Furnace Co., Johns-Manville Corp., and Minneapolis-Honeywell Regulator Co.

Floor Coverings

Sales of linoleum felt base coverings by Armstrong Cork Co. are reported to have attained new maximum records last year, with Government orders for use by naval aircraft, war plants and military establishments providing a large portion of total volume. Net income after all charges is estimated at about $1.75 per share of common, which would compare with actual profits of $2.86 per share in 1941. Demand will remain substantial throughout 1943, but scarcities of such materials as rubber, burlap, cork, linseed oil and petroleum products used in manufacturing operations may cause some contraction of sales later this year. The company's leading position in the linoleum field, as well as increasing diversification of products, is a favorable long time factor from an earnings standpoint. Capitalization consists of 52,994 shares of $4 cumulative preferred stock of $100 par value, and $1,410,866 shares of no-par common stock. Finances were in excellent condition as of June 30, 1942, with current assets of $33,033,000, including cash of $4,002,000 and inventories of $19,289,000, comparing with current liabilities of $10,079,000. Common dividends in the amount of $1.35 per share were paid last year, and the latest distribution was $0.25 as of March 6, 1943. More liberal payments are probable in future months, while the large potential normal demand, with implications of earnings recovery, justifies expectation of eventually higher prices for the common shares.

While sales of Celotex Corp., rose over 17% during the fiscal year ended Oct. 31, 1942, quadrupling of excess profits taxes cut net profits to $1.55 per share of common from $2.56 in the previous fiscal year. Celotex is one of the larger makers of insulating and other building materials, these being produced from bagasse (the fibrous portion of sugar cane), a low-cost substance. The building trades normally consume about 65% of output, with the balance being sold to the railroad, refrigerator, automotive and many other industries. Sales prospects for this year are good, inasmuch as the company has a large backlog of orders on hand, chiefly for insulation, roofing and gypsum boards. Raw materials supplies appear adequate. Finances as of Oct. 31, 1942, were satisfactory, with current assets of $6,953,000, including cash of $1,191,000, comparing with current liabilities of $2,928,000. Accumulating demand for residential rehabilitation materials and for other building products should offset the inevitable decline in defense and cantonment orders in the years ahead. Assuming that this year's common dividends will equal the $0.75 paid in 1943, the common shares provide a potential yield of about 6.8% and may be considered an attractive long-time holding.

Indications are that the annual report of Congoleum-Nairn, Inc., for the year ended Dec. 31, 1942, will reveal only a moderate decline in profits for last year. This concern is the largest producer of felt-base floor coverings, and is also an important maker of linoleum floor and wall coverings. Inasmuch as operations are highly mechanized, overall costs are comparatively low. Demand for military housing purposes over the near future may not offset the decline in normal volume, but peace time prospects are propitious. Finances at the end of June, 1942, were unusually strong, with cash and U. S. securities alone amounting to over $7,920,000 out of total current assets of $18,515,000, compared with current liabilities of only $3,443,000. Sole capitalization consists of 1,243,000 shares of no-par common, on which dividends of $1.25 per share were paid last year, with the most recent distribution being $0.25 scheduled for March 15, 1943. Strong finances have enabled liberal dividend payments over the past decade, and at prevailing prices the shares may be acquired for income and price appreciation purposes.

Roofing Materials

Flintkote Co., one of the larger manufacturers of roofings, shingles and similar lines, reported $2.18 per share of common stock, for the year ended Dec. 31, 1942, compared with $2.35 a share in 1941. Besides the 713,706 shares of no-par common, there were also outstanding 38,337 shares of no-par $4.50 cumulative preferred at the close of 1942. There was no funded or floating debt. Year-end finances were strong, with cash and U. S. Government issues totaling $4,639,000 out of total current assets of $12,622,500, while current liabilities amounted to $5,858,000. Sales for the duration should be sustained by demand for use in pre-fabricated and demountable homes in defense plant regions, with peace time prospects aided by development of new prodcts and large potential sales from normal trade sources. The $1.00 annual common dividend rate, in effect for four years, provides a conservative return at current market prices, while the favorable post-war outlook warrants acquistition for long-term appreciation.

Sales of Holland Furnace Co., (leading maker of warm-air heating equipment) are practically all originating from some phase of the war effort, with civilian replacements being confined to essential needs. Facilities have been expanded to handle production of various armament items. Capitalization is simple, consisting of 450,442 shares of $10 par common stock. Financial position at the end of 1941 was strong, with cash and U. S. issues totaling $6,583,000, out of current assets of $13,138,000, as against current liabilities (*Please turn to page* 610)

Position of Leading Building Equipment Shares

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Divi-dends Paid	War Rating	Peace Rating	COMMENT
Alpha Portland Cement	31.61	13.09	0.81	1.66	1.85E	1.06	1.50	C	C	Cement demand at high levels. Strong position should help company benefit fully from post-war reconstruction. $1.50 dividends probable this year.
Amer. Encaustic Tiling..	2.36	0.76	d0.14	0.25	0.10E	None	None	D	D	Record unimpressive. Long term outlook uncertain. No dividends indicated for near future.
Amer. Radiator	9.18	0.10	0.41	0.73	0.50E	0.37	0.30	C	C	Leader in field. Drop in normal business offset by war work. Long-term outlook good, though per-share profits may remain small. Occasional dividends probable.
*Armstrong Cork	34.02	(a)	2.95	2.86	1.75E	1.94	1.35	C	B	Leading linoleum maker. Materials shortages affecting operations. Post-war demand prospects excellent. $1.40 common dividend basis expected for 1943.
*Celotex	7.74	(a)	2.13	2.56Oc	1.55Oc	0.30	0.75	C	C	War work substantial. Additional lines should aid post-war reconstruction and other demand. Finances good. Further common dividends expected this year.
Certainteed Prods.	(a)	(a)	d0.93	1.48	0.80E	None	None	D	D	War demand large, but high costs make post-war profit outlook dubious. Large preferred arrears ($34.50) make common dividends remote.
*Congoleum-Nairn	19.99	11.80	1.70	1.62	1.50E	1.52	1.25	C	B	Earnings stable, because of consistent demand and low costs. Growth in demand foreseen after war. $1.00 regular dividend, plus extras, expected this year.
Crane Co.	29.77	16.50	1.70	1.18	1.75E	0.40	1.00	C	C	Leading maker of valves and pipes. War effort activities extensive. Good peace time trade expected in all lines. 1943 dividends may equal 1942 total.
Devoe-Raynolds "A"	47.72	25.80	2.23	7.08Nv	5.04Nv	1.81	1.25	C	C	Narrower profit margins seen for near future. Strong trade position, large normal demand, favor peace time prospects. $1.00 common payments 1943 probability.
*Flintkote	16.85	3.43	1.64	2.34	2.18	1.02	0.90	C	C	Important maker of shingles, roofings, etc. New products and markets should sustain sales in future years. 1943 dividends may equal last year's total.
*Holland Furnace	24.48	21.56	2.85	4.65	2.75E	1.69	2.00	C	B	Largest in its field. Addition of new lines (air-conditioners, stokers, etc.) should be helpful after the war. $2.00 dividends expected this year.
*Johns-Manville	53.95	23.00	4.07	6.66	6.35	3.06	2.55	C	B	Leading asbestos products maker. Strong trade position, control of materials, constant new lines assure large post-war business. $2.00 dividends likely in 1943.
Lehigh Portland Cement	40.80	7.12	1.89	2.78	2.75E	1.50	1.80	C	C	Military work demand large. Good trade status, high integration and diversified markets aid peace time outlook. Year's dividends may equal 1942 payments.
Lone Star Cement	46.38	15.70	3.54	4.33	p3.62	3.12	3.25	C	C	Sales drop possible later in 1943. Latin-American business large. Overall post-war outlook good. Regular $3.00 dividends, plus extras, anticipated.
Masonite Corp.	10.23	0.80	2.99	3.56Ag	2.39Ag	1.56	1.25	C	B	Government demand ample. Good patent status, low costs, widening markets make long-term outlook favorable. Regular $1.00 basis, plus extras, probable this year.
*Minn-Honeywell	15.12	4.98	3.50	4.20	5.25E	2.88	2.50	B	B	Leader in heat-regulating field. Has large Army and Navy contracts. Deferred normal demand means excellent peace time trade. Usual liberal dividends expected.
National Gypsum	6.31	(a)	1.16	0.94	0.70E	0.06	0.25	C	C	High war-time operating levels seen. Widening use for products is favorable post-war factor. Small common dividend expected later this year.
Otis Elevator	15.29	6.95	1.09	1.10	1.50E	0.91	1.00	C	C	Leading builder of elevators and escalators. Current war work large. Investment income important. Peace time prospects good. Liberal dividends expected.
Paraffine Cos.	40.95	10.30	3.74	3.16Je	3.62Je	3.25	2.00	C	C	War work growing. Does large West Coast business. Subsidiary active in container field. Long term sales expansion seen. Usual $2.00 dividend expected.
Penn. Dixie Cement	(a)	(a)	d1.98	0.69	0.54	None	None	D	D	Competitive status and earnings record poor. Peace time outlook uncertain. Large preferred arrears ($84.75) make common payments remote.
Ruberoid	39.81	19.00	2.71	1.75	2.25E	1.65	1.15	C	C	Enjoys strong asphalt and asbestos products trade position. Outlook for after-war business excellent. Dividend, paid since 1889, should be fairly liberal.
Sherwin-Williams	67.00	44.40	6.21	7.83Ag	7.43Ag	3.87	3.00	C	B	Largest maker of paints and varnishes. Doing good war business. Ample, stable earnings seen after war. Dividends paid since 1885. $3.00 basis probable for 1943.
U. S. Gypsum	47.35	9.10	4.32	5.42	4.27	2.94	2.00	C	B	Largest gypsum products maker. Post-war growth prospects make extension of excellent earnings record likely. $2.00 dividend basis expected this year.
Yale & Towne	35.54	21.22	1.79	3.38	2.75E	0.84	1.00	C	C	Near-term profit outlook uncertain, but strong trade position means good business in later years. Dividends, paid since 1899, may be lower this year.

d—Deficit. (a)—None available, because of excessive senior capitalization. E—Estimated. Je—Year ended June. Ag—Year ended August. Oc—Year ended October. *—Recommended for income and appreciation. B—Good. C—Fair. D—Marginal. p—Preliminary.

STEEL SHARES RETARDED BY POST-WAR DOUBTS

This Year's Earnings Should Be Close to 1942 Figures

New production records are in prospect for the American steel industry during 1943. With inauguration on a tremendous scale of offensive operations by the United Nations, steel will be needed in quantities that seem destined to assure all-time peak output before this year has passed into history. Last year's steel ingot production aggregated 86,092,000 tons, and surpassed the previous record, established in 1941, by 3,255,000 tons.

Government requirements, of course, have precedence, and, as a sequel, the greater portion of production and all of the deliveries are controlled by various Governmental agencies. The operational problems that attended assumption of such controls have been solved, in the main, and there is every reason to expect that aviation, military and maritime needs will be adequately fulfilled.

New Production Records

Of paramount importance to uninterrupted production of steel are sufficient supplies of scrap metal. Variation in the stocks of such vital metal caused some concern at different times during 1942, but surveys conducted at the year-end indicated expansion in inventories of scrap steel and iron, with further improvement anticipated upon the arrival of more favorable collecting weather conditions a few weeks hence.

Considerable progress was recorded last year in the development of alloy steels. Outstanding in this connection was development by steel company metallurgists of a new series of low-alloy steels known as the National Emergency steels, which contributed toward conservation of strategic and critical materials. Tests of such alloys steels showed that they proved entirely satisfactory alternates, in quality and performance, to the higher-alloy steels which they replaced.

The unprecedented demand for steel last year has imposed terrific strain upon productive facilities, and as a consequence maintenance costs have been rising steadily for many months. This factor, as well as appreciably higher Federal taxes, was chiefly responsible for the decline in net profits revealed by annual reports of 1942 operations of most of the major entities in the steel industry. United States Steel, for example, charged off $123,571,000 for depreciation, etc., as against $95,815,000 in 1941, while Federal taxes (after allowance for post-war excess profit credits released through retirement of debt since Sept. 1, 1942) totaled $155,400,000, compared with $118,700,000 in the previous year. As a result, net income dropped to $5.39 per share of common from $10.45 a share in 1941. In the preliminary reports of certain other concerns for 1942, depreciation and depletion were not separately stated, but it is probable that due allowance will be made in the pamphlet statements later to be issued.

In the case of Bethlehem Steel, taxes, rather than depreciation, accounted for the drop in 1942 net profits. Federal levies totaled $151,500,000 last year, as against $85,300,000 in 1941, and net income declined to $6.32 per common share from $9.35 a year earlier. The brief published income account of Acme Steel Co. showed net of $6,250,000, before taxes, compared with $8,491,000 in 1941. Inasmuch as Federal taxes last year (including the post-war excess profits refund) dropped to $4,157,000 in 1942 from $5,325,000 in 1941, it may be assumed that depreciation accounted for a larger portion of charges than during 1941. Net income of Acme receded to $5.26 per common share from $9.65 in 1941.

Backward Market Action

With capacity operations virtually assured for 1943, the question of probable earnings naturally engrosses the attention of investors in steel shares. It does not appear likely that a new Revenue Tax bill, if one is enacted this year, will impose levies materially above those now prevailing. However, it does seem probable, in the interest of conservative accounting that depreciation and depletion charges will be, on the average, above those of 1942, while the renegotiation factor may also set some 1943 earnings estimates at naught. Generally speaking, 1943 earnings should not vary widely from those of 1942.

Acme Steel Co., which concentrates on production of hot and cold rolled strip steels and specialties produced therefrom, is expected to enjoy another year of good profits. Expanding demand for specialties, considered in connection with excellent control of costs, is favorable from a long-term standpoint, while dividends, paid since 1901, should continue of generous proportions. Allegheny-Ludlum Steel Corp. (which was comprehensively analyzed in our issue of (*Please turn to page* 608)

Position of Leading Steel and Iron Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
*Acme Steel	46.94	14.64	4.83	9.65	p5.26	2.94	3.50	B	C	Good position in strip steel and specialties divisions helps long-term prospects. Dividends, paid since 1901, may continue on $3.00 annual basis.
*Allegheny Ludlum	22.15	7.71	1.20	3.86	4.60E	0.94	2.00	B	C	Rising demand for special alloy steels (chief product) indicates sales expansion in future. Finances sound, but 1943 dividends may not reach 1942 total.
Amer. Rolling Mills	31.82	(a)	1.09	3.21	2.40E	0.99	1.00	B	C	War work increasing. Competition in sheet steel makes long-term outlook uncertain. Earnings record erratic. $1.00 common dividends possible this year.
Bethlehem Steel	135.52	(a)	3.70	9.35	6.32	2.00	6.00	B	C	Second ranking steel maker and leading shipbuilder. Overall post-war prospects generally good. $6.00 dividend basis may continue during 1943.
Byers (A. M.)	32.78	(a)	d1.79	3.74Je	3.03Se	None	None	C	D	Supplanting of wrought iron by cheaper steel products is unfavorable long-time factor. Earnings record poor. No common dividends likely.
Colorado Fuel & Iron	44.37	1.26	0.98	4.06Je	4.58Je	0.31	1.50	C	D	Railroad work (about one-half total volume) should provide good immediate post-war business. Longer time outlook fair. Lower 1943 dividends expected.
Continental Steel	59.72	18.03	3.40	5.46	4.06	1.56	2.00	B	C	Wartime outlook fair. Farmers provide chief outlets, thus providing fair post-war prospects. Finances strong, and year's dividends may equal 1942 total.
Crucible Steel	69.94	(a)	0.56	12.96	p7.26	None	2.00	B	C	Wartime profits will remain good. Competition and "leverage" factor man mean return to volatile common share results after war. $2.00 dividend seen for 1943.
General Refractories	36.52	8.74	2.31	2.70	2.75E	1.44	1.20	C	C	Steel industry largest customer. Replacement work dependence, rather than expansion, seen as limiting peacetime sales gains. $1.25 dividends possible this year.
Granite City Steel	32.47	5.46	0.37	1.25	1.65E	0.60	0.35	C	D	Makes flat-rolled steels. Markets well-diversified. Usual moderate but stable profits expected in years ahead. Dividends may be higher in 1943.
Harbison-Walker	21.15	4.39	1.56	1.81	1.60E	1.44	1.125	C	C	Steel makers chief consumers. Large dependence on replacement work limits post-war sales prospects. Year's dividends may approximate 1942 total.
*Inland Steel	69.28	8.22	6.61	9.08	p6.57	4.00	4.50	B	C	Output and markets well-diversified. Low-cost producer. Improving operating status suggests good peacetime outlook. $5.00 dividends probable for 1943.
Interlake Iron Corp.	23.97	4.90	0.18	1.20	p0.62	0.16	0.50	C	D	Despite varied output (pig iron, coke, gas, light oils, etc.), cost factors detract from long-time prospects. Earnings record poor. Irregular dividends probable.
Jones & Laughlin	104.39	(a)	d4.22(b)	10.85	p4.42	2.25(b)	2.00	B	C	Otis merger improves geographical status. However, "leverage" factor may mean volatile common-stock results in future. 1943 dividends should equal 1942 payments.
Keystone Steel & Wire	13.91	3.78	1.39	2.14Je	2.37Je	0.79	1.25	C	D	Farmers and livestock producers largest consumers. Hardware business increasing. Long-time sales outlook fair. Dividends may continue variable.
*National Steel	51.99	19.07	3.55	7.79	5.41	1.13	3.00	B	C	Record consistently good, probably due to large "light steel" output. Peacetime prospects favorable. $3.00 dividends expected this year.
Republic Steel	39.13	(a)	0.63	3.87	3.60E	None	1.25	B	C	Competitive position strengthened, and improved post-war average earnings anticipated. $1.00 common dividends probable for 1943.
Sharon Steel	28.52	5.16	1.13	3.40	2.75E	0.56	1.00	C	C	Growing ratio of electric-furnace steel and wider market diversification should help sustain operations after war. Usual $1.00 common payments probable.
Superior Steel	23.58	0.21	1.27	5.77	8.64	None	None	C	D	Increasing alloy and special steel output is helpful from long-term viewpoint. Resumption of dividends (omitted since 1926) possible later this year.
U. S. Pipe & Foundry	41.69	14.10	3.18	3.76	p2.38	2.16	2.25	C	C	Largest cast iron pipe maker. Water supply systems use most of output. Public works needs should help post-war sales. Usual liberal dividends expected.
U. S. Steel	134.72	(a)	2.24	10.45	p5.39	0.25	4.00	B	C	Largest steel maker. High ratio of "heavy steel" output may mean continuing erratic earnings in peacetime. $4.00 common payments possible for 1943.
Warren Fdy. & Pipe	31.69	19.07	2.29	3.92	3.25E	2.25	10.14(c)	C	C	Operations chiefly for war work. Earnings record good, and long-term outlook is fair. $3.00 dividends probable for this year.
Wheeling Steel	92.14	(a)	0.71	11.74	p4.61	0.98	1.50	C	C	Large consumer goods markets should aid in sustaining sales in future years. Meanwhile, common dividends may be of only moderate size.
Woodward Iron Co.	53.08	(a)	2.88(e)	3.01	3.85	None	1.50	C	C	Industrial growth of South, strong trade position and low-cost status are propitious peacetime factors. $1.50-$2.00 dividends expected for 1943.
Youngstown Sheet & T.	86.06	(a)	3.86	9.13	p5.66	0.81	2.15	B	C	Overall sales outlook good after war, but "leverage" will continue to cause wide ranges in common share results. Dividends may total $2.00 in 1943.

d—Deficit. (a)—None available, because of excessive senior capitalization. (b)—Does not reflect Otis Steel merger in 1942. (c)—Including $7.14 from sale of certain assets. (e)—Reorganized in 1937. Div. average for 1937-1939. p—Preliminary. E—Estimated. Je—Year ended June. Se—Year ended Sept. *—Recommended for income and appreciation. B—Good. C—Fair. D—Marginal.

Dubious Post-War Prospect Weighs Heavily on Non-Ferrous Metal Stocks

WHILE the non-ferrous metals are in great demand for war purposes, and the Government is using various devices to stimulate production, the post-war outlook seems dubious. Present production difficulties seem partly due to the Government's rather inflexible price policy. Several years ago President Roosevelt decided that 12¢ a lb. was about the right price for copper, and this arbitrary "ceiling" has been adhered to in a period of rising costs, with some exceptions. About a year ago the Metals Reserve Company (a Government agency) began paying premiums over ceiling prices to some 2,500 domestic producers of non-ferrous metals—5¢ on copper and 2.75¢ to 8.25¢ for zinc and lead under certain conditions; but these are paid only for excess production over a base figure.

During the first World War prices got out of control. Copper advanced from 13 to nearly 30¢, then was restricted to 23.5¢; zinc jumped from 5 to 13¢, lead from 4 to 9¢. Prices went a little higher after the war but crashed in 1919-20 due to over-supplies of copper and scrap, the mines closing for several months in 1921. (Lead and zinc fared better than copper.)

Last year's supply of copper, estimated around 2,500,000 tons, was about 2½ times our smelter output in the first World War, but nevertheless, was short of war needs; it is hoped to raise output another 500,000 tons this year. Zinc is greatly in demand, lead less so.

The Government is taking over 99% of copper production for war purposes and is also digging into hidden scrap supplies. Thirty-six foreign countries have been scoured for supplies of thirty-two different metals, higher than market prices being paid in many cases, for political as well was military reasons. Thus after the war there may be a temporary vacuum in civilian supplies, which will sustain mine operations until such time as Washington (or Europe) starts to dump accumulated war supplies, or scrap excess equipment. If we happen to have a change of administration in 1944 it is possible that the basic 12¢ ceiling price may disappear, in which case the mining companies may enjoy a better margin of profit for a time.

The outlook for the mining companies over the longer-term future remains clouded, however. If the allied nations decide to maintain a big military machine to police the world, Government scrap piles may be largely retained. But the principal post-war threat to the industry is the further development of cheap African production (where labor costs are far lower, though shipping costs partially offset this). Moreover, another problem is the vastly increased output of aluminum (which can be substituted for copper for many uses, and has the advantage of much lower weight). Seven times as much aluminum will be mined this year as four years ago, it is estimated; some 50 to 100 times as much magnesium will probably be produced.

The output of alloy metals is also gaining substantially, and the use of plywood and plastic substitutes for metal is rapidly improving in technique. Just how all this will affect the normal post-war demand for copper is difficult to analyze briefly but there can be little doubt that, once civilian stock-piles have been restored, the red metal may have to wage a battle against the new materials. However, the mining companies will probably be spared some of the inventory losses encountered after the other war, for this time there has been no price inflation—if anything, prices are below normal. Also, there has been little stimulus to marginal production and new drilling, due to rigid Government rules and lack of equipment.

Regarding earnings for 1942-3, the situation is very mixed. Companies expected to show improved earnings in 1942 include Cerro de Pasco, Climax Molybdenum, Eagle-Picher, Miami and Federal Mining. Comparatively (*Please turn to page* 611)

Position of Leading Metal Stocks

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
Alaska Juneau	12.95	.93	1.02	0.49	N.E.	1.14	None	D	D	Exempted from gold-mine shut-down order, but operations extremely limited. Low grade ore makes long-term outlook uncertain. Early dividend resumption unlikely.
Aluminium, Ltd.	103.36	46.40	12.70	20.81	20.00E	1.06(b)	10.00	B	C	Aluminum war demand high. Strong British Empire position and post-war growth in aluminum use aid peace time prospects. Usual $10 dividend probable.
Alum. Co. of Amer.	77.54	(a)	11.71	22.90	22.00E	1.50(e)	6.00	B	C	Operations at capacity. Dominant position assures full participation in post-war aluminum growth. Regular $6.00 common dividend indicated.
Amer. Metal Co., Ltd.	45.12	21.94	2.06	2.24	2.00E	1.25	1.50	C	C	American and Rhodesian mine investment income believed larger than smelting receipts. Peace time outlook generally good. Dividends may equal 1942 total.

Position of Leading Metal Stocks—Continued

Company	Book Value Per Sh.	Net Quick Assets Per Sh.	1936-39 Avge. Net Per Sh.	1941 Net Per Sh.	1942 Net Per Sh.	1936-39 Average Dividends Per Sh.	1942 Dividends Paid	War Rating	Peace Rating	COMMENT
*Amer. Smelt & Rfg.	38.40	26.78	5.25	5.59	4.25E	3.58	3.00	C	C	Leader in its field. War demand high. Long term outlook good for mining, smelting and investment income. $2.00 dividends probable in 1943.
Amer. Zinc, Lead & Smelt	2.38	1.64	d0.33	0.52	0.60E	None	None	D	D	Pre-war record poor. Smelter competition severe. Post-war outlook uncertain. No common dividends in near future.
Anaconda Copper	64.13	17.18	2.22	5.01	4.10E	1.19	2.50	C	C	Strong status in mining and fabricating divisions favors good peace time outlook. Finances sound. Dividends may equal 1942 payments.
Anaconda Wire & Cable	52.71	27.53	2.86	5.94	5.25E	2.31	1.50	C	C	Controlled (68%) by Anaconda Copper. Outlets well-diversified. Earnings erratic before the war; may continue so in peace time. Irregular dividends seen.
Cerro de Pasco	34.86	20.48	3.13	2.17	2.25E	4.44	4.00	C	C	U. S. buying all available output. Normal European markets large. Good basic position aids peace time outlook. $4.00 dividend may be continued.
*Climax Molybdenum	29.78	4.41	3.03	3.55	5.00E	2.03	3.20	B	C	Leader in molybdenum output. Increasing use as steel alloy provides sanguine post-war outlook. 1943 dividends may equal 1942 total.
Dome Mines	7.46	3.87	2.08(g)	1.98(g)	1.75E	1.94(f)	2.00	C	B	Near-term outlook unpromising. Strong position as Canadian gold producer aids peace time prospects. $1.60 dividend basis expected for 1943.
Eagle Picher Lead	16.77	3.84	0.46	1.56(h)	2.00E	0.33	0.60	C	D	Capacity levels seen for duration. Basic position improved, but competition will be keen after war ends. $0.60 dividend basis probable for 1943.
Homestake Mining	11.10	6.32	3.60(i)	2.83	2.85E	3.99(f)	3.75	C	B	Leading U. S. gold producer. Current activities restricted. Large ore reserves provide good peace time prospects. Dividend resumption probable in 1943.
Howe Sound	42.86	17.46	6.29	3.85	3.78	4.59	3.25	C	C	Higher metal prices helping current operations. Production diversified. Long-term outlook good. Year's dividends may reach 1942 total.
Hudson Bay M & S	14.41	4.78	1.89	2.54	2.50E	1.50	2.00	C	C	Current demand large. Peace time prospects for varied production satisfactory. Finances good. Dividends of $2.00 expected for 1943.
Inspirat'n Cons. Copper	24.89	2.70	0.59	1.92	1.25E	None	1.00	C	D	As company is high-cost producer, earnings have been erratic. This condition may continue after war ends. Some dividends probable this year.
International Nickel	15.05	3.79	2.55	2.22	2.00E	1.89	2.00	C	B	All divisions at capacity. Leading position assures full peace time quota of business. Usual $2.00 common dividend basis expected.
Kennecott Copper	35.47	13.25	3.05	4.55	4.75E	2.24	3.00	C	C	Early 1943 sales gain probable. Leading position and low costs favorable from long-term standpoint. Dividends of about $3.00 probable this year.
Lake Shore Mines	2.85	1.92	4.10	1.82	1.14Je	4.69	0.80	C	C	Second ranking Canadian gold producer. Continued decline in ore grade makes long-term outlook uncertain. Smaller dividends a 1943 possibility.
Magma Copper	20.17	14.99	2.94	3.66	1.75E	2.50	2.00	C	D	Current output high. Price situation good. One-mine nature of operations makes long-term outlook uncertain. Continued $2.00 dividend basis expected.
McIntyre Porc.	25.95	24.49	4.53	4.79	4.30Mr	2.00	3.33	C	B	Fourth ranking Canadian gold producer. Earnings record excellent. Peace time outlook good for operating and investment income. Usual $3.33 dividend forseen.
Miami Copper	25.35	3.69	0.43	1.01	1.00E	0.04	0.50	C	D	Earnings record erratic. High-cost factors and competition make peace time prospects uncertain. Small 1943 dividend possible.
*N. J. Zinc	(c)	(c)	2.76	4.89	3.68	2.88	3.25	B	B	Largest U. S. zinc producer. Leading position means good earnings during and after war. Dividends, paid for 60 years, should continue liberal.
Phelps-Dodge	32.69	3.96	1.45	1.70	1.50E	1.34	1.60	C	C	Second ranking U. S. copper producer. Strong position, low costs and increased capacity favorable peace time factors. $1.60 dividends probable for 1943.
St. Joseph Lead	16.40	9.63	2.31	2.44	2.50E	1.63	2.00	C	C	Largest American lead producer. Operations high. Prices satisfactory. Strong position favors good earnings after the war. Usual $2.00 dividends expected.
Silver King Coalition	7.87	0.74	0.52	0.32	0.20	0.49	None	D	D	Labor shortage limiting output. Earnings record erratic. Ore reserve uncertainties make long-term forecast impracticable. Occasional small dividends probable.
U.S. Smelt, Ref. & Min.	82.72	None	7.04	6.21	7.50E	7.63	4.00	C	C	Mining output diversified. Reduced 1943 operations probable. Long-term outlook generally satisfactory. $4.00 dividend basis expected for this year.
Vanadium Corp.	34.03	9.45	1.62	3.04	2.00E	0.50	0.25	C	C	Capacity operations expected for duration. Strong "ferro-chrome" position helps provide good peace time prospects. Dividends may be resumed this year.

d—Deficit. (a)—None available, because of excessive senior capitalization. (b)—Plus 10% stock in 1939. (c)—No balance sheet available. (e)—Plus 1/3 sh. Aluminium Ltd. (f)—Based on new stock. (g)—Giving effect 2-for-1 split in 1938. (h)—11 mos. Nov. (i)—Giving effect 8-for-1 split in 1937. E—Estimated. NE—Not estimated. Mr—Year ended March. Je—Year ended June. *—Recommended for income and appreciation. B—Good. C—Fair. D—Marginal.

FOR PROFIT AND INCOME

Annual Reports

Stockholders are receiving some handsome annual reports. Each company seems to be trying to outdo the others in presenting its owners with a typographical work of art. Much of the data presented in some is of little financial or background importance, but it would make good copy for *Life* or *Look*. At a time when most corporation managements have the least to say, they seem to be trying to give their shareholders the idea that they are saying the most. Probably high excess profits taxes are encouraging large expenditures for stockholder good-will.

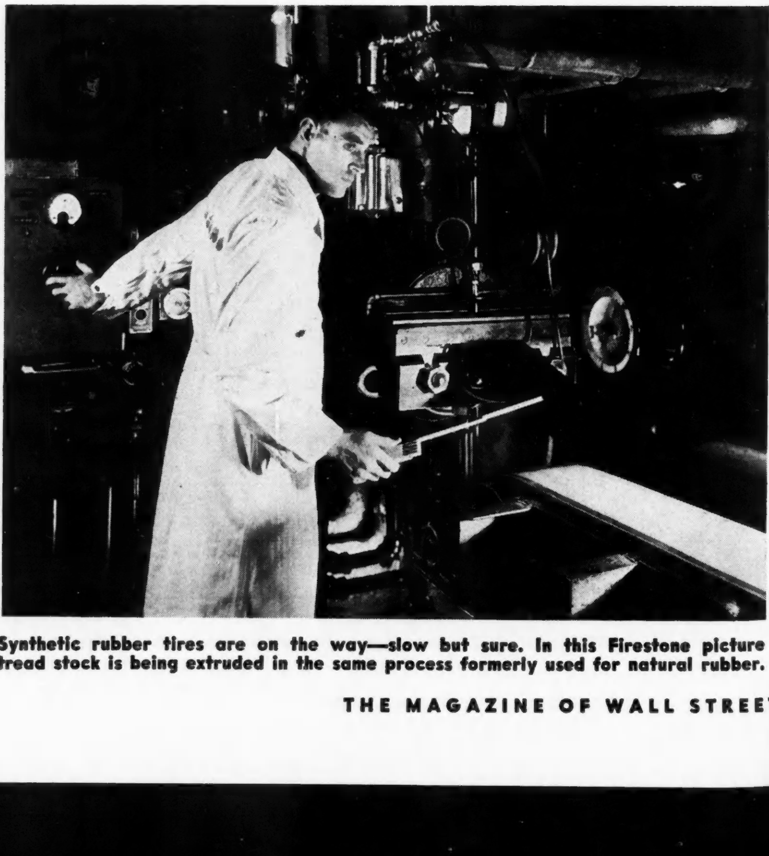
Looking past the typography, however, it is notable that most managements are making more adequate preparations to pay their taxes this year, that financial position has improved during the past 12 months, and that the earnings reported for 1942 are considerably larger than was predicted last May and June. The big question seems to come on how much earnings will shrink when contracts are renegotiated. One can't help wondering, in many cases, just what will happen when peace begins to take the war out of balance sheets. At present the ratio of current assets to current liabilities is abnormally low because the government is extending so much credit, directly and indirectly, to finance inventories and operations. How will it all wash out? That's one of the imponderables.

General Cigar

The December 31st balance sheet of General Cigar Co., Inc. is interesting. It shows current assets exceeding current liabilities by $21,736,004. After deducting 50,000 shares of 7% preferred stock at $100 a share, this leaves more than $35 a share net working capital for a stock which lately has been selling in the market for around $25 a share and which received dividends of $2.25 a share in 1942. General Cigar common stock does not have a very good market; and as stocks go, it lacks sex appeal. Yet the record shows that it has paid a dividend in every year since 1909. Earnings in 1942 were $2.36 a share against $2.78 in 1941. As a yield stock, this issue would appear to have a good deal to recommend it. Moreover, it has conservative appreciation possibilities. Some people think that the cigar industry is decadent; actually it is better than holding its own and is in a better price ceiling situation than the cigarette making business.

Minneapolis-Moline Preferred

Minneapolis-Moline Power Implement preferred stock, paying $6.50 per annum and carrying a back dividend accumulation of $39.25 a share, currently is selling around 78. This price is (a) less than 5 times last year's earnings of $16.02 a share, (b) offers a yield on a $6.50 annual dividend of 8.3% even assuming no extras are paid, (c) is less than 2½ times the back dividend accumulation, and (d) is only about two-thirds of the company's net working capital of around $118 a share at the end of last October. Whether the back dividend accumulation is settled through a recapitalization, as some people seem to expect, or is paid off gradually in cash, the preferred



Synthetic rubber tires are on the way—slow but sure. In this Firestone picture tread stock is being extruded in the same process formerly used for natural rubber.

at these prices, with no bonds or bank loans senior to it, would seem to be a rather good stock to buy. The government wants a big food production, and this means that the farm implement business will have to be good. Furthermore, there will be an abnormal demand for food for some years to come.

Building Industry Outlook

In the annual report of United States Gypsum, which as always is convincing evidence of the company's sound management, Mr. Avery pointedly remarks that the outlook for the building supply business is not good. He does not expand his opinion, but there is no need of it. Certainly there is going to be very little residential building so long as the war lasts; the country's war plant now is pretty well built; and if the experience of 25 years ago is repeated, the residential building industry will recover rather slowly when peace comes. If high-priced (and low-priced) building shares are to go ahead from here, they will be discounting prosperity rather dangerously far in advance.

Southern Pacific

In an earlier issue, we hinted that Southern Pacific's 1943 earnings would be substantially lower than those for 1942 because of the exhaustion of the company's excess profits tax exemption credit. We now understand that the exemption credit for past years will not be used up in the 1942 tax return, and that per share net will be high again this year. Southern Pacific might enjoy "war earnings" longer than the eastern roads, especially if the war with Japan should go on for a considerable period after the war with Germany ends. Naturally, the longer the company enjoys war earnings which are not eaten up in taxes the better will be its chances of taking care of heavy maturities during the next few years. The stock at 17 is highly speculative in spite of earnings of around $22 a share in 1942 and the outlook for $15 or $17 again in

Stocks at New Highs Since 1938

	Recent High	1942 High	1941 High	1940 High	1939 High
Allied Mills	18 3/8	16 3/8	14 3/4	16 3/4	15 1/8
Amerada	76 3/4	70 1/2	63 1/2	58 1/2	74 1/2
Amer. Agri. Chemical	26	26	22 7/8	21	24 1/4
Amer. Sumatra Tobacco	25 1/2	23	19 5/8	18	18 1/2
Amer. Type Foundry	8 3/4	7 5/8	7	6 1/4	6 1/4
Bohn Aluminum & Brass	47 1/4	43	35	34	28 1/2
Burlington Mills	23 1/2	20 3/4	20 7/8	21 5/8	20 3/8
Davison Chemical	15 1/2	12 5/8	11 1/4	8 3/8	10 5/8
Decca Records	13	10 1/4	9 1/4	8	8 1/8
Deere & Co.	32 3/8	27 1/4	28 3/8	23 7/8	25 1/2
Doehler Die Castings	26 1/2	26	23 1/8	23 1/4	21
Electric Storage Battery	40 1/2	34 1/2	34 3/8	33 1/2	35
Firestone Tire	28 3/8	26 7/8	18 1/2	21 3/4	25 1/2
Goodrich	29 7/8	27	21 7/8	20 3/4	24 3/4
Industrial Rayon	35 1/8	35	29 7/8	29	29 1/2
Mid-Continent Petroleum	23	19 1/4	17 7/8	17 3/8	18
Mission Corporation	17 1/4	14 3/4	15 1/2	11 3/8	14 7/8
National Dept. Stores	9 1/4	7 3/8	8	7 3/8	8 3/8
Ohio Oil	15 1/8	30 1/2	23 3/8	23 1/4	30
Oliver Farm Equipment	37 1/2	17 1/2	16 1/8	10 7/8	14 1/8
Paramount Pictures	19 5/8	11 1/2	12	11 1/2	11 3/4
Pure Oil	14 3/8	18 3/8	16 3/4	13 1/8	17 1/4
Shell Union Oil	20 3/4	30 1/4	35 1/4	23 1/4	29 1/2
Skelly Oil	35 3/4	12 1/2	10	8 3/4	10 1/2
United Drug	8 7/8	8 1/8	6 1/2	7 1/4	7 1/4
Warner Bros. Pictures	9 7/8	8 1/2	6 1/8	4 1/4	6 7/8
Zenith Radio	25 7/8	20	15 7/8	17 3/4	22 1/8

1943; but it should pay another token dividend of $1.00 a share or so this year and has enough favorable current background to make it a good trading medium.

Low-Priced Utilities, A Measure of Hope

On a percentage basis, the performance of the very low-priced utility holding company stocks since December has been better than that of any other market group. Standard Gas & Electric has advanced 650%, American Power & Light 500%, International Hydro-Electric A 300%, Electric Power & Light almost 300% and Columbia Gas & Electric more than 200%. All of these stocks represent hopes rather than values; and this is significant because hope has been the thing the stock market has been lacking in recent years. Much of their rise, of course, has been a rebound from December tax-selling pressure. Perhaps some of the recent rise in utilities, however, has been inspired by a new hope that the public utility holding company "death sentence" may be altered or commuted. A more extreme demonstration of the abstract element of hope in recent trading has been the rise in such rails as Seaboard Air Line common, Frisco common, and New Haven preferred, no one of which seems to stand much chance of participating in any reorganization of these bankrupt estates. Speculation certainly is getting virile, even if it is, as brokers report, 90% on a cash basis.

Comment at Random

While a large part of the present oil and coal traffic of the railroads admittedly is non-recurrent, much of the managerial improvement in railroads probably will last long after the war; and the benefits of debt retirement from the present large inflow of cash are lasting. . . . Whenever radio shares are talked about in Wall Street, someone points out that from an operating standpoint Philco and Zenith have been running circles around Radio Corporation in recent years; everyone admits, however, that the name, Radio Corporation of America, still has stock market glamor. . . . The Warner & Swasey annual report, commenting on the company's large contingency reserves, remarks that deductions may not be adequate to cover the losses and adjustments incident to the coming conversion to peace, and Warner & Swasey has been a better-than-

(*Please turn to page* 607)

Securities Disturbing Investors

BY J. S. WILLIAMS

Standard Oil of Kentucky

Developments of late have caused some stockholders of Standard Oil of Kentucky to inquire as to whether further retention of their shares is justified. The 1942 earnings report just issued shows income at only $1.03 a share compared with $1.41 in 1941. Continuing restrictions on driving raise serious doubts as to whether even this income will be continued for 1943. Gasoline sales are below a year ago and there is not enough business from the government, from industry and for military needs to offset shrinkage in civilian travel.

Standard Oil of Kentucky is the leading distributor of gasoline and petroleum products in the Southeast. Through its 1300 service stations it also sells tires and tubes, batteries and accessories. The company's distribution costs are comparatively low and excellent control is exercised over marketing expenses. However, it is strictly a marketer and as such is in a highly vulnerable position in relation to curtailed use of private automobiles. The oil group is regarded as a hedge against inflation because of the crude oil reserves of the different companies which would increase in value with the higher prices for oil and gasoline. Standard Oil of Kentucky is not a producer and so lacks this appeal. The company follows a liberal dividend policy but felt it necessary to pay only $1 a share in 1942 as compared with $1.25 in 1941. The financial position remains sound. Bank loans incurred in 1941 were to finance the construction of a pipe line.

Conclusion: From a 1942-43 low of 10 this stock has advanced to 15¾ at the high. Currently it is just fractionally below this high. In our opinion sale now would release funds which could be employed more productively. In the oil group we prefer more integrated companies with large oil reserves to take advantage of inflationary tendencies.

Food Stocks and Point Rationing

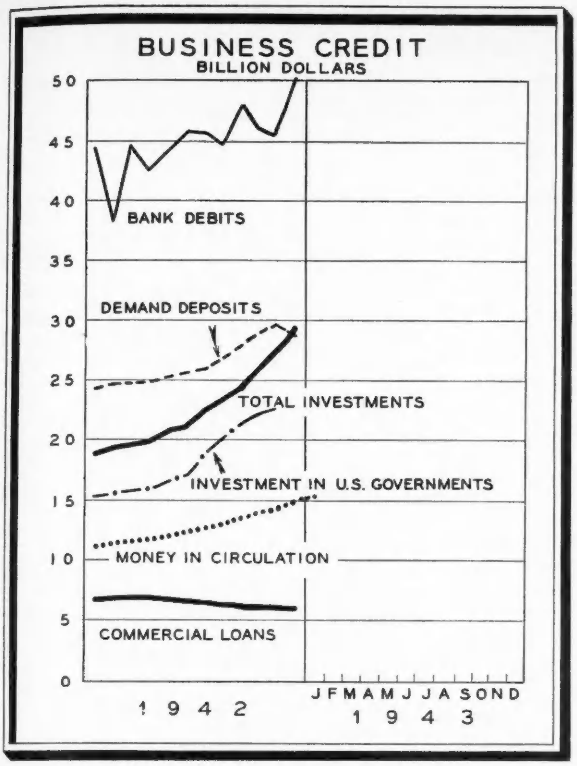
Some concern has been expressed over the position of the food products companies under the new point rationing system. Undoubtedly retails sales will be severely affected but the consequence to individual companies will be determined by the point values which will be assigned to each particular product. It will take a little time before consumers decide where they can use their points to best advantage, so it is too early to discern the outcome. It must be remembered, however, that all food that can be produced, which is not sold to civilians, will be required for the armed forces and for lease-lend. While profit margins on governmental business will be regulated, they should remain satisfactory.

Furthermore, the food stocks have lagged behind the general market averages during the strong advance, so at present quotations they give recognition to uncertainties. For stability, post-war prospects and a good dividend income stocks such as General Foods, Corn Products Refining, Cream of Wheat and Quaker Oats have definite appeal. We counsel against frightened liquidation of stocks in the food group. Later on, when the outcome of point rationing is clarified some selective revisions may be undertaken.

Collins & Aikman

Collins & Aikman is definitely among the securities which have been disturbing investors. A number of holders have written asking for advice now that the stock is nearly 100% above the 1942 low of 10⅝. The earnings picture has been far from reassuring. In the 9 months ended November 28, 1942 losses of $.11 a share were reported as compared with a profit of $2.33 in the same period of the previous year. The dividend action has also been unsatisfactory with the $.25 a share paid March 2, 1942 representing the only disbursement last year, contrasted with $3.00 a share in dividends paid in 1941.

This leading manufacturer of pile upholstery fabrics has been affected adversely in all its activities. Normally supplying most of the automobile industry's needs for upholstery—stoppage of car production hit the company hard. About 15% of the company's output goes to the furniture industry which is being curtailed. A line of men's and women's woolen wear is also manufactured and will be restricted. However, the outlook is not as dark as it seems. Large orders for serge and duck are now coming in from the Government and should continue to be received. About 80% of the company's production is for war today. While profit margins on this work are narrower than on normal business, operations are currently in the black. Earnings were retarded by tremendous costs of conversion but now that this is out of the way to a major extent income will be better. (*Please turn to page* 610)



CONCLUSIONS

MONEY AND CREDIT — Individuals saved $28.9 billion last year, including $10.3 billion of Government securities bought. Savings in 1941 were only $14.1 billion.

TRADE—Fear of rationing stampedes clothing buyers, lifting department store sales to 46% above last year. January chain store sales off 1.5%.

INDUSTRY — Business activity again tops last year. Factory prices of non-durable goods advanced 16% in first year after Pearl Harbor, while durables held steady.

COMMODITIES—Canned goods rationed and fresh vegetables "ceiled." Spot commodities highest since 1937.

The Business Analyst

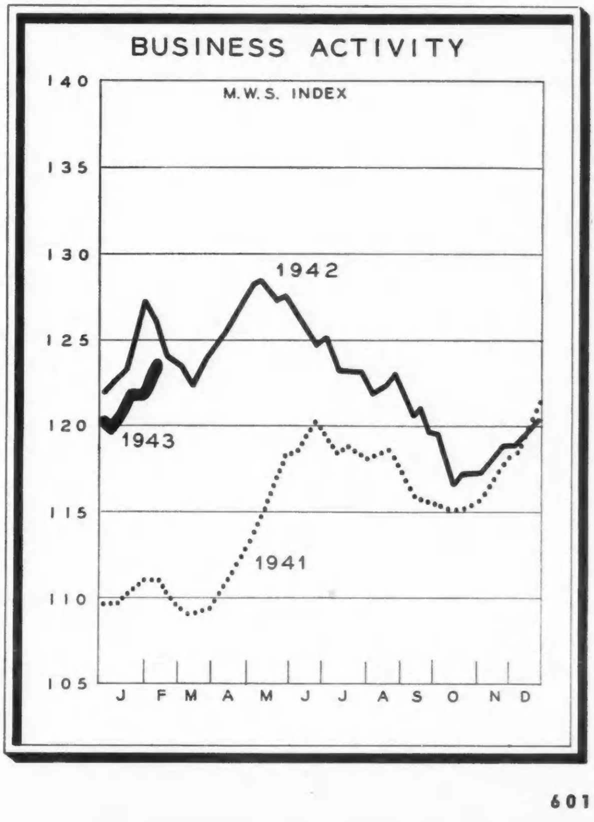
With all components of this publication's business index reporting better than normal seasonal improvement, per capita **business activity** has risen a point during the past fortnight to a level fractionally higher than a year ago. Without compensation for population growth, the nation's overall business activity is nearly 4% greater than last year at this time. Among 287 centers reporting monthly to the Federal Reserve Board, 55 (or nearly 20%) showed lower **bank debits** for three months ended Jan. 31 than for the like period a year earlier. Among the 55 were four good-sized cities—Albany, N. Y.; Birmingham, Al.; Peoria, Ill., and Trenton, N. J.

* * *

Dividends declared during January were 13% less liberal than for the like month last year; but it is noteworthy that disbursements by the **railroads** rose 20%. A number of companies will earn more and pay out more this year than last. Others will not fare so well. Whether aggregate earnings and dividends will be larger or smaller than last year depends much upon the O. P. A.'s ultimate policy as to earnings.

* * *

Thus far reports as to the official attitude toward **profits** have been rather confusing.
(Please turn to following page)



Inflation Factors

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
FEDERAL WAR SPENDING†	Jan.	$5,947	$5,825	$2,104
FEDERAL DEBT† (Gross to Date)	Jan.	$111,069	$108,170	$60,099
MONEY SUPPLY				
Member Bank Dem. Deposits†	Feb. 6	$29,743	$30,052	$24,457
Currency in Circulation†	Feb. 20	15,845	15,798	11,399
NATIONAL INCOME				
Total Income Payments†	Dec.	$11,404	$10,430	$9,376
Salaries and Wages†	Dec.	7,614	7,428	5,843
Dividends and Interest†	Dec.	1,439	530	1,576
Total Non-Farm Income†	Dec.	10,158	9,026	8,482
Farm Marketing Income† (ee)	Dec.	1,517	1,764	1,128
Including Govt. Payments† (ee)	Nov.	1,825	2,015	1,212
FACTORY PAY PAYROLLS (dl)	Dec.	278.9	270.6	191.0
FACTORY EMPLOYMENT (dl)				
Durable Goods	Dec.	206.5	201.6	164.5
Non-Durable Goods	Dec.	121.5	121.1	117.6
BANK DEBITS				
Member Banks (101) Cities†	Feb. 6	$12,603	$10,320	$9,724
New York City†	Feb. 6	5,800	4,080	4,033
COST OF LIVING (d)				
All Items	Jan.	101.4	101.0	94.5
Food	Jan.	109.1	108.3	95.2
Housing	Jan.	90.8	90.8	90.1
Clothing	Jan.	88.6	88.6	82.4
Fuel and Light	Jan.	91.7	90.6	90.3
Sundries	Jan.	106.6	106.4	102.5
Purchasing Value of Dollar	Jan.	98.6	99.0	105.8
RETAIL TRADE				
Primary Distribution (b)	Dec.	134	136	121
Distribution to Consumers (b)	Dec.	84	93	98
Consumer Expenditures				
Total†	Oct.	$7,413	$6,945	$6,385
Goods†	Nov.	4,823	5,120	4,233
Services†	Oct.	2,293	2,300	2,152
Retail Store Sales†	Dec.	5,981	4,893	5,585
Durable Goods†	Dec.	944	776	1,237
Non-Durable Goods†	Dec.	$5,037	$4,416	$4,348
Department Store Sales	Jan.	142	125	138
Chain Store Sales (g)	Jan.	177	175	164
Rural Sales, Gen. Merchandise (m)	Nov.	149.9	192.8	186.9
Commercial Failures (c)	Dec.	506	585	898
PRICES				
Wholesale (h)	Feb. 13	102.1	102.0	96.2
Retail (s)	Jan.	113.1	113.1	110.2
DEPT. STORE STOCKS (f)	Nov.	105	115	95
MANUFACTURERS ORDERS SHIPMENTS & INVENTORIES (e)				
New Orders—Total	Dec.	255	297	232
Durable Goods	Dec.	362	415	332
Non-Durable Goods	Dec	187	192	167
Shipments—Total	Dec.	242	232	188
Durable Goods	Dec.	315	300	228
Non-Durable Goods	Dec.	144	179	157
Inventories—Total	Dec.	177.6	177.9	158.4
Durable Goods	Dec.	209.6	207.7	175.5
Non-Durable Goods	Dec.	149.6	151.8	143.5

PRESENT POSITION AND OUTLOOK

(Continued from page 601)

One story from Washington was to the effect that Prentiss Brown, the new head of O. P. A., believes that taxes and contract renegotiation supply all that is needed in the way of curbs on corporate profits without holding down prices to cut "excessive earnings." A few days later came the report that O. P. A. believes that returns on invested capital should be limited for the duration to 4% before taxes and 2% after taxes. Very recently, steel casting prices have been ordered reduced on the grounds that manufacturers were making "excessive profits." It looks as though Mr. Brown is not the chief, but the servant, of O. P. A. New Dealers.

* * *

Profits, per se, are **not inflationary.** In the present war a major portion of profits is absorbed by taxes, or frozen in the form of reserves for post-war contingencies and invested in war bonds. The minor portion paid out in dividends constitutes a small fraction of the total national income. Of course large profits come from high prices, whereas low prices reduce profits. But high prices are inflationary only in the instance of goods prior to the retail stage. High prices for consumers' goods are deflationary insofar as they reduce demand; but inflationary if made the basis for further wage increases. Most inflationary are increases in costs, made up chiefly of wages and farm commodities, and here is where politics enters the picture. Price Administrator Prentiss Brown says that price control opponents in Congress are so strong that the consumer must get behind the President to assure continuance of the fight against inflation.

* * *

The contrast in wartime developments within the durable and non-durable fields of production may be gleaned from a breakdown analysis of official statistics. During the 12-months' interval between Nov., 1941, and Nov., 1942, production of **durable goods,** where price control of raw materials has been complete, increased 33% while average prices remained virtually stationary and labor efficiency fell off only 1%, despite a 14% rise in unit labor cost. On the other hand, in the non-durables field where raw material prices (chiefly for farm products) have been soaring, production has remained virtually stationary; but factory prices advanced 16% and labor efficiency fell 9%, under a rise of only 4% in unit labor costs.

* * *

In as much as by far the major portion of durable goods production is now for war purposes, while most of the non-durables are for civilian use, there may be a disposition to read into these figures a vindication of military against civilian control of production. But it should be noted that **durable goods** plants have taken the pick of skilled mechanics, have enjoyed priorities in machine tools, materials and transportation, and have benefited hugely from

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Feb. 13	123.7	123.1	124.8
INDUSTRIAL PRODUCTION (a)	Dec.	194	192	168
Durable Goods	Dec.	281	277	214
Non-Durable Goods	Dec.	145	144	141
STEEL				
Ingot Production in tons ★	Jan.	7,408	7,303	7,124
Year's Total Production to ★	Dec.	86,092	....	82,836
ELECTRIC POWER OUTPUT				
K.W.H.†	Feb. 20	3,948	3,939	3,423
ENGINEERING CONSTRUCTION				
Volume ★ (en)	Feb. 25	$54,646	$98,861	$266,622
PETROLEUM				
Average Daily Production bbls. ★	Feb. 20	3,874	3,870	4,077
Crude Runs to Stills Avge. bbls. ★	Feb. 20	3,694	3,605	3,876
Total Gasoline Stocks bbls. ★	Feb. 20	92,215	92,313	106,984
Fuel Oil Stocks bbls. ★	Feb. 20	70,428	70,666	87,825
TRANSPORTATION				
Carloadings, total	Feb. 13	764,950	755,386	782,701
Grain	Feb. 13	48,264	52,024	38,745
Coal	Feb. 13	178,447	174,184	154,725
Forest Products	Feb. 13	38,243	37,241	47,603
Manufacturing and Miscellaneous	Feb. 13	363,828	357,593	351,892
L. C. L. Mdse.	Feb. 13	94,071	91,477	151,517
Ore	Feb. 13	14,025	15,309	12,920
Coke	Feb. 13	15,601	14,877	14,102
Livestock	Feb. 13	12,471	12,681	11,197
GENERAL				
Paperboard, new orders (st)	Dec.	497,109	482,582	521,866
Lumber Production† (bd. ft.)	Dec.	2,079	2,394	2,445
Cigarette Production†	Jan.	20,370	19,716	19,502
Bituminus Coal Production★(tons)	Jan.	48,209	48,400	48,906
Portland Cement Shipments★(bbls.)	Dec.	8,923	14,627	11,511

PRESENT POSITION AND OUTLOOK

adoption of mass production on a fast expanding scale. **Airplane** production, for example, has increased 240% in the past 13 months, while the average price per ton dropped 27%.

* * *

Among **non-durables** the chief factor in lifting costs and prices has been lack of control over **farm prices** (up 23% in the 12-month period under review). The crucial issue here is not civilian vs. Army control; but **political** vs. **non-political control.** Between Dec. 1, 1941, and Jan. 1, 1943, **living costs** in Canada remained almost stationary; but rose 9.7% in the U. S. **Price control** has been effected in Canada by freezing **wages** and **retail prices,** and through extensive **subsidies** for essential domestic and imported goods.

* * *

Exports last year—including lease-lend, but excluding shipments to our armed forces abroad—amounted to $7.83 billion. **Lease-Lend** accounted for 60% of this, leaving only $3.16 billion for current account. Against this we imported goods to the value of $2.74 billion, resulting in excess exports of only 415 million. About 4 million long tons of foodstuffs, invoiced at $1.25 billion, have been shipped to our Allies since March, 1941. Average price was thus 13.70 per lb. Here at home it would be welcome at twice the export price. Housewives in New York City are paying 50c for **meat** cuts upon which the official ceiling is less than 25c.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100% estimated long term trend. (c)—Nat. Ind. Conf. Bd. 1923—100. (dl)—U. S. D. L. 1939—100. (ee)—Dept. of Agric. (en)—Engineering News-Record. (f)—1923-25—100. (g)—Chain Store Age. (h)—U. S. B. L. S. 1926—100. (l)—1939—100. (m)—1929-31—100. (s)—Fairchild Index, Dec. 1930—100. (St)—Short tons.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

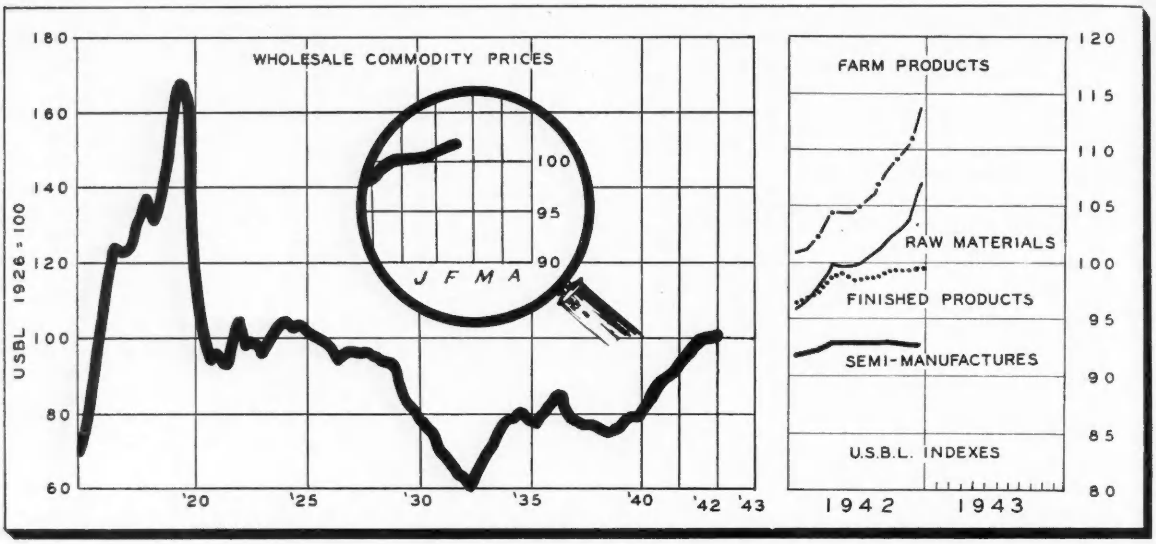
No. of Issues (1925 Close—100)	1943 Indexes High	Low	Feb. 20	Feb. 27
273 COMBINED AVERAGE	71.3	54.5	67.6	71.3D
3 Agricultural Implements	123.0	105.4	117.8	123.0E
9 Aircraft (1927 Cl.—100)	159.3	131.8	153.5	159.3
5 Air Lines (1934 Cl.—100)	389.5	363.1	374.4	389.5C
5 Amusement	49.1	40.2	48.4	49.1F
12 Automobile Accessories	109.0	83.0	103.0	109.0F
13 Automobiles	15.7	9.7	14.2	15.7F
3 Baking (1926 Cl.—100)	10.5	8.5	10.5	10.5
3 Business Machines	150.8	129.4	146.8	150.8D
2 Bus Lines (1926 Cl.—100)	77.1	54.9	74.5	74.4
5 Chemicals	176.5	153.5	172.5	176.5D
13 Construction	29.5	23.3	28.4	29.5C
5 Containers	210.0	177.1	203.3	210.0C
8 Copper & Brass	78.4	63.6	73.9	78.4B
2 Dairy Products	32.9	29.7	32.6	32.9C
6 Department Stores	19.2	15.4	18.3	19.2B
5 Drugs & Toilet Articles	63.0	50.9	61.3	63.0E
2 Finance Companies	174.0	152.6	170.5	174.0B
6 Food Brands	104.4	85.5	101.1	104.4C
2 Food Stores	39.1	37.9	37.9	38.0
4 Furniture	45.5	35.0	42.7	45.5C
3 Gold Mining	715.4	610.3	659.8	715.4C
6 Investment Trusts	30.2	22.7	28.9	30.2D

(Nov. 14, 1936, Cl.—100)	High	Low	Feb. 20	Feb. 27
100 HIGH PRICED STOCKS	59.05	52.87	57.60	59.05B
100 LOW PRICED STOCKS	62.59	43.61	59.11	62.59D
3 Liquor (1932 Cl.—100)	225.8	199.1	219.5	225.8F
8 Machinery	96.4	82.6	94.2	96.4B
2 Mail Order	68.2	61.8	67.0	66.3
3 Meat Packing	48.0	34.9	42.7	48.0B
10 Metals, non-Ferrous	144.4	106.8	137.1	k44.4C
3 Paper	12.0	9.0	11.2	12.0B
21 Petroleum	109.6	86.9	106.6	109.6E
18 Public Utilities	38.3	23.2	36.8	38.3B
3 Radio (1927 Cl.—100)	17.1	12.1	11.7	13.0C
7 Railroad Equipment	41.9	32.1	40.9	41.9B
17 Railroads	13.0	9.8	11.7	13.0C
2 Shipbuilding	97.9	83.4	96.8	97.9
3 Soft Drinks	241.9	197.8	230.0	241.9C
12 Steel & Iron	68.5	57.6	65.7	68.5B
2 Sugar	37.5	32.2	35.9	37.5
2 Sulphur	188.8	180.2	187.8	186.3
3 Telephone & Telegraph	77.5	67.0	76.9	77.5F
3 Textiles	43.5	33.7	43.0	43.5B
3 Tires & Rubber	19.8	16.5	18.7	19.8D
4 Tobacco	60.6	52.2	59.7	59.4
2 Variety Stores	205.6	182.4	204.7	205.6
20 Unclassified (1942 Cl.—100)	158.0	100.0	134.6	158.0

New HIGHS since: B—1941; C—1940; D—1939; E—1938; F—1937.

Trend of Commodities

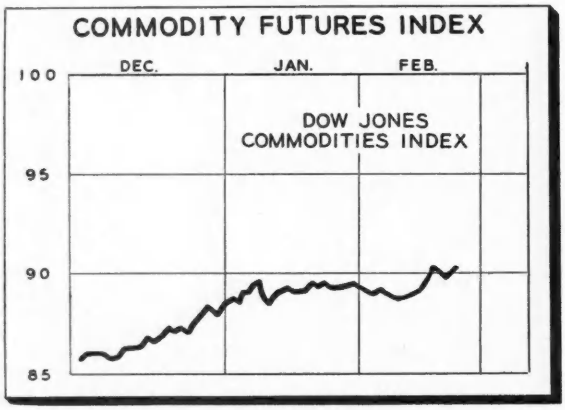
Future markets are fast disappearing under price control. Buying and selling of commodities is narrowing down more and more to cash transactions in the various spot markets. Print cloth, hides, gasoline, crude oil, corn, flour, coffee, cocoa, raw and refined sugar, butter, eggs, milk, citrous fruits, the principal fresh vegetables, lard, pork, beef, and all metals are "ceiled." There is no longer even a spot market for rubber and silk. Among agricultural staples, only wheat, rye, oats, cotton and wool still enjoy a free market; for ceilings are also equivalent to floors in these days—leaving no latitude for fluctuations in price. Nevertheless, the Magazine of Wall Street's index of Raw Material (spot) Prices has just risen to the highest level since April, 1937—but only 3.4% above last year—owing to persistent strength in the few remaining free markets. Of the 14 basic commodities entering into this index only one, wool tops, is selling lower than last year. Wool is coming in from Australia in greater quantity than expected a year ago and domestic stocks have become so large that the W. P. B. has relaxed restrictions upon the use of wool for civilian clothing. Fearful of unprofitably low prices, growers here have asked the Government to take over the annual wool clip.

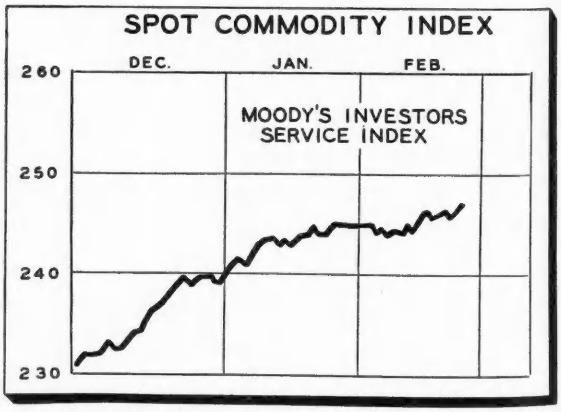


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1929, equal 100

	Date Feb. 24	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	2 Yr. Ago
28 Basic Commodities	175.4	174.7	174.2	169.9	166.0	165.1	122.9
Import Commodities	166.0	165.2	164.7	162.1	162.0	161.1	129.8
Domestic Commodities	181.7	181.1	180.6	175.1	168.6	167.7	118.6
Domestic Agriculture	204.3	202.4	201.3	186.0	179.7	179.9	127.4
Foodstuffs	199.9	199.7	199.1	191.9	184.9	182.0	119.8
Raw Industrial	158.8	158.7	157.5	154.9	153.0	153.3	125.1





Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	90.67	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.59	45.03	52.03

15 Commodities, December 31, 1931, equal 100

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	1943	1942	1941	1940	1939	1938	1937
High	246.9	239.9	219.9	171.8	172.3	152.9	228.1
Low	240.2	220.0	171.6	149.3	138.4	130.1	144.6

Answers ? to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
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Special rates upon request for those requiring additional service.

National Oil Products

Give me all information available please on National Oil Products. Why has it declined from 35 to 31½ when most stocks were rising? Anything seriously wrong? —H. G. M., Newark, Ohio.

This company is essentially a chemical organization, inasmuch as it manufactures processed oils and other products utilized in textile, metal, paper, printing, and other industries. Other products include vegetable and fish oils, cod liver oil for poultry and animals, cod liver vitamin extract for human consumption as well as soap and shampoo items.

The latest available balance sheet is for December 31, 1941 and disclosed a strong inventory position, with this item totaling over $4,000,000 out of total current assets of $5,316,000, while cash amounted to only $525,500. Current liabilities total $1,884,000 and included provision for taxes in the amount of $995,000. During 1940, the company sold $1,500,000 principal amount of 3¼% debentures, due in 1955. The outstanding common stock, comprising the only equity issue, amounts to 214,794 shares of $4 par value. Dividends on the common stock have been paid in each of the past sixteen years but in 1942, company paid only $1.00 per share as compared with $1.95 in 1941.

The company's earnings showed a drastic decline in 1942, amounting to $2.41 per share as compared with $4.11 in 1941. Earnings from 1935 to 1940, inclusive, ranged from a low of $2.17 per share in 1935 to a high of $3.89 in 1939.

The company is understood to have encountered difficulty in securing sufficient supply of fish livers, important to manufacturing operations, as the result of war restrictions. However, it may be inferred from the 1941 year-end statement of inventories that adequate quantities of materials are available for normal operation in the near future.

The price range of this stock in 1942 and to date in 1943 was: high 36; low 29½; last 32.

The decline in earnings in 1942 with resultant reduction in dividend rate, undoubtedly were reflected in the market price of this stock. In view of the earnings in 1942 and the current dividend rate, the stock does not appear deflated at current market price of 32. The company's limited cash holdings suggest continued conservation with respect to dividends during the near future. The growing popularity of vitamin products, stimulated by aggressively conducted publicity, should be helpful.

Sundstrand Machine Tool

I am bringing up the subject of the Sunstrand Machine Tool Co. of which I bought 100 shares common Sept. 30, 1942 at a cost of 32. This was on the recommendation of a Washington broker who is no longer my broker. For some time I have been puzzled by its failure to reflect market optimism in the face of serious lack of machine tools of practically all kinds and the heavy Government and civilian demand for them.

Will you kindly tell me what you think of the company, the stock, and whether I should switch into something more promising before new and startlingly good news, anticipated in the spring, sends the market suddenly to new highs.—L. L. H., Bethesda, Maryland.

This company was incorporated in 1926 in Illinois and manufactures and sells a diversified line of automatic machines and machine tools. Its earnings from 1933 to 1938, inclusive, were very erratic ranging from a deficit of 86¢ in 1938 to a high of $2.33 in 1937. In 1939, it showed $2.42. Since then earnings have shown a marked improvement, company earned $7.60 per share in 1940, $6.23 in 1941 and for the eleven months ended November 30, 1942, $6.66 share on the 188,128 shares of common stock outstanding. The latter is the company's sole capital obligation.

No dividends were paid in 1938 or 1939 but in 1940 and 1941, it paid $3.50. Due to heavy income tax payments, it reduced the yearly dividend in 1942 to $2.60. The stock is listed on the Chicago Stock Exchange and closed on February 10 at 16¼. Based on this price and the $2.60 dividend rate, the income yield is about 16%.

(Please turn to page 608)

Advantages of Buying for Capital Appreciation Today

(*Continued from page* 569)

the regular normal and surtax rates. Perhaps one reason for the current strength in stocks is the unwillingness of those who own them to sell until after a six months period has expired.

But there is such a thing as tax-free appreciation, provided the investor does not sell. Hundreds of holders of issues like Dow Chemical, du Pont, Aluminum Company of America, International Business Machines, General Motors, Chrysler and International Harvester, to name only a few stocks, have much bigger "paper" profits before taxes than they would have "cash" profits after taxes. They can't afford to "take" the profits which have accrued; they are "wealthy" until they sell.

The same is true of the private owners of many excellent family businesses. They have seen the assets, going concern value and good will of their properties increase from year to year, and recognized that they have had their money profitably employed. In fact, they have grown wealthy by staying with their properties and ploughing back earnings. This might be described as the Henry Ford way of getting rich.

A common stock investor, theoretically can follow the same general practice. For instance, anyone who bought Computing-Tabulating-Recording back in 1922 or 1923 and has stayed with his commitment (now International Business Machines) down through the years has realized a very large capital appreciation through the growth of the company. Those who bought General Electric right after World War I have had a similar experience. Most of the larger stockholders of Aluminum Co. of America, DuPont, Union Carbide and Standard Oil of New Jersey have huge profits, and profits which are tax-free so long as they do no disturb their investment. Most of them, moreover, are perfectly content to continue to hold these "blue chips" and derive the excellent dividend income which accrues on the relatively small initial investment.

In addition to the somewhat fundamental arguments for buying for capital appreciation thus far presented, there are other current considerations which are quite compelling. For lack of space we shall state them only briefly:

(1) Since the yield on capital has decreased, it is necessary to have more capital; therefore capital appreciation must be sought. It takes twice as much money to afford an income of $5,000 with interest rates at 2% as it did at 4%.

(2) Capital appreciation is a way to neutralize any mild inflation which may result from the war.

(3) As the political environment improves, men will be more willing to take risks; and as a result common stocks, or risk securities, will become more prominent. Many people think there is a definite trend "to the right" in political thinking all over the world.

(4) Many of the issues which have capital appreciation possibilities also afford a good yield, as one of the supplementing tabulations shows.

(5) Many of the stocks which have good appreciation possibilities, pay no dividends or very small dividends. Such issues can be bought to advantage in cases where the investor is anxious not to increase his salary, interest and dividend income, but is seeking a large capital gains income —realized or unrealized. The shorter table makes some suggestions for investors of this type.

(6) The "growth" companies which afford the greatest possibilities of long-term capital gains are the best companies to buy anyway. Money is safer in them, if they are well selected, than in any bond.

(7) The present capital gains provisions of the revenue act may be further liberalized to enable the government to participate more broadly in the bull market. It is not forgotten that reasonable taxes on stock market profits permitted the Coolidge-Mellon regime to retire a good deal of the national debt. A lighter tax on capital gains probably would be more productive than the current medium rates tax.

One thing always should be remembered in thinking of the stock market. Success begets success. For years, stock trading has been unpopular mainly because the poor experience of those who engaged in it has been shouted from the housetops. Lately, people have been making money in stocks once more. The news is getting around. The stock broker once more has become a profitable servant. In an inflationary economy, or even in just a confidence reviving economy, stocks are likely to go up. This means profits to those who own them, just as a bear market means losses. The best argument of all for investment for appreciation today, is that we seem to be in a great bull market—and still in the early stages of it.

For Profit and Income

(*Continued from page* 599)

average machine tool company. . . . Pure Oil is thought to be more reasonably valued than some of the other oil shares; unmined oil reserves per share probably are not as high as Ohio Oil's, but Pure's per share earnings for last year probably were higher—both stocks sell at about the same price. . . . A London financial writer points out that either London stocks are very cheap in this market or the pound sterling is too low. You can buy such London stocks as are traded in New York at prices materially below the London quotations. Of course there is no arbitrage in insulated markets. Some of these are International Nickel, Canadian Pacific, Roan Antelope, Imperial Chemicals and Imperial Tobacco. . . . One reason for the lack of profit-taking in the market is unwillingness to take profits until securities have been held 6 months or more; profits on holdings held six months or more go into income tax at one half the value of short-term profits.

As I See It!

(*Continued from page 565*)

by every means available and every gag is being employed, including the old trick of labelling as Fascist anyone who does not agree with them. Nor do they recognize democracy, the natural middle ground, except to pooh-pooh it contemptuously. Only when they have something to gain —or when they are being hindered in their nefarious work—do they call upon good-natured democracy to protect them, demanding the tolerance they would consider it stupid to show anyone whose opinions differed from their own.

While Stalin's defense of Russia has redounded greatly to our advantage, Stalin's efforts in every other field have been nil. He was more helpful to the Nazis. In fact, his cooperation with Germany during the period of the Stalin-Hitler honeymoon extended into every country and every field, an amazing contrast with his attitude toward the democracies. His recent pronouncements have done the Allied cause much harm indeed and is bringing confusion as to the issues and the outcome of the war.

In our own country, his minion, Earl Browder, just out of jail where he still would be confined if he were in Russia, takes costly full page advertisements to tell us how much he admires Soviet Russia and points out how lowly we are in comparison. Mr. Browder, who was convicted and sent to prison for advocating the overturn of our government, is at large only as a gesture of friendliness to our "ally," Mr. Stalin.

It is too bad that he should have the opportunity of "selling" the theory of long-exploded communism to Americans—a privilege that Mr. Stalin would not grant to any American who sought to sell our way of life to the Russians.

Our government must have faith in the common sense of our people to permit it. Maybe they are right, for despite the inconsistencies in democracy, we have somehow invariably succeeded in finding the way to solve our problems. Moreover, from events in the making there is good reason to doubt that Mr. Stalin will succeed Hitler in European leadership. The war is not yet over and much can happen.

In the meantime the Nazi lines are stiffening in the East, indicating that they will be able to hold especially prepared positions. Beneath the surface movements are stirring that might make the German people glad to see the Allied Nations in Berlin first.

Steel Shares Retarded By Post-War Doubts

(*Continued from page 594*)

Nov. 28, 1942) is devoting practically all of its operations to alloy and specialty steel items, while its new "Pluramelt" steel, provides the company with further attractive long-term possibilities.

Bethlehem Steel Company's leading position in the shipbuilding trades, and its strong status as second ranking steel maker, should assure 1943 earnings ranging not far under the $6.32 per share of common reported for 1942. Conversion to war work, and a drop in output of normal lines, may restrict earnings progress of Continental Steel Corp. during 1943. However, as this concern's production is consumed chiefly in agricultural areas, the longer term prospects may be considered encouraging. Crucible Steel's output of alloy steel and ordnance will be completely needed for the duration, but there is little to indicate anything different after the war from the wide fluctuations that characterized this company's operations in normal times. Inland Steel, whose production runs largely to sheets, strip, tin plate and bars, has considerably strengthened its trade position in recent years, and further progress in this respect, considered in connection with its low cost status, will be extremely helpful from a profits standpoint in the post-war years. National Steel Corp. enjoys a consistently good earnings record, due in large measure to the fact that "light steels" make up the larger portion of output. Extension of this fine record appears likely in the years ahead.

U. S. Steel, in addition to being the largest American steel maker, has other extensive interests in rail and ship transportation, and also controls the largest domestic producer of cement. War work and rehabilitation activities in the immediate post-war era will keep plants well-occupied, but chief dependence on "heavy steel" ouput suggest reversion to the wide variations earnings in future years which featured activities before outbreak of the present conflict.

Steel shares as a group have lagged behind the market in recovery to date, especially U. S., Bethlehem, Youngstown Sheet & Tube, Crucible and Republic. Best action has been turned in by such leaders in the "consumer steel" field as National and Inland which have the best dividend record among the larger units. Among smaller enterprises, Acme has been an outstanding dividend payer.

It appears to be the present consensus of investment-speculative opinion that the post-war steel outlook is "below-average." Some doubt is engendered by much increased plant capacity and by possible competitive inroads of plastics, plywoods, aluminum and magnesium over the longer pull. Because of in-and-out earnings characteristics, few steels have any "investment" status. On a speculative basis, however, they hardly can be considered over-extended at prices which in most cases are far under best levels attained in many pre-war years when earnings were not only lower than now but low enough so that, despite changed conditions, they could probably be equalled or bettered on normal future business. Quite recently steels have begun to do substantially better market-wise. They are often "late movers" in bull markets.

Answers to Inquiries

(*Continued from page 605*)

Latest available balance sheet as of December 31, 1941 showed total current assets of $3,679,407 as compared with total current liabilities of $2,672,989, a ratio of about 1.4 to 1. $2,264,349 of the total current liabilities represent accrued income taxes and this item was over $1,000,000 more than in the preceding year. This partly accounts for the reduction in the dividend rate. The present price of 16¼ compares with the high of 39 in 1941 and a low of 7 in 1939. Presumably the reason for its selling on such a low price earning ratio is because investors are dubious as to the company's earning power in the post war period. The large income return on this stock attests to its speculative nature. We would take advantage of any worth while rally in this stock to liquidate same and reinvest proceeds in stocks of more representative companies which have had more stable earnings.

Postal Telegraph Bonds

I hold $15,000.00 par Postal Tel. and Cable Corp. bonds due 1953. These bonds were purchased years ago, $5,000.00 around 35 and later, to average, $10,000.00 at about $14, so average is around 22 commissions paid.

I wish to know your views as to the advisability of disposing of these bonds before the merger is an accomplished fact, or holding them beyond that period. I realize there has been a consistent deficit but do not know whether it is because of the large interest charge against bonds, although in default, or from operations.—H. C. K., Carlsbad, New Mexico.

These bonds are currently quoted over the counter at 37¼ bid or $372.50 for $1,000 bond. This is tantamount to the approximate total market values of the securities exchangeable.

The 5% bonds due 1953 are still exchangeable for the new securities. If you made this exchange, you would receive for each $1,000 Postal bond the following: $35 cash payment, 5 shares of Postal Telegraph System $2.40 dividend series non-cumulative preferred stock and 20 shares of the new land line company's $1.00 par value common stock; $160.00 Commercial Mackay Corporation 4% income debenture with warrant attached for purchase of 115 shares of that concern's common for $1,000; $20 in All-America Corporation 4% series "B" income debentures; and 20 shares of American Cable & Radio Corporation common stock.

Legislation is being completed to legalize the merger of Western Union - Postal Telegraph and there is considerable speculation as to what form this merger will take, particularly in regard to the financial picture. Nothing official has been hinted at and inasmuch as the bill is not yet law, nothing is likely to be mentioned immediately. Western Union common stock has been strong recently as a result of the improvement in the company's earnings with net of $8.95 per share in 1942, which is the best showing this company has made since 1930 when they showed $9.03 per share. The company has improved its financial set-up with elimination of bank loans and other short term debts. There has also been considerable speculation in the Postal Telegraph stock purely on the basis of merger hopes. Most of the benefits to be derived from this consolidation with Western Union appear to be largely discounted. The situation is not all that could be desired and an element of uncertainty lies in the restrictions being placed on telegrams. While finances appear adequate they are not impressively strong. In our opinion, your funds could be used more advantageously elsewhere. For recommendations, we refer you to recent issues of THE MAGAZINE OF WALL STREET.

Woolworth, Ltd. and S. H. Kress

Can you please give me information of what the present war has done to F. W. Woolworth stock in England. How did the shortage of merchandise and sales clerks affect the company? Will the present war have same effect on S. H. Kress & Co. common?—J. M., New York, N. Y.

The war has had an adverse effect on the earnings of F. W. Woolworth Company, Limited, of England. For the year 1942, net profits before taxes amounted to 5,699,822 pounds sterling as compared with 6,404,759 pounds sterling in the preceding year. This is a decline of about 11%. Dividends paid in 1942 amounted to 50% on par, less tax, as against 55% in 1941. F. W. Woolworth Company, the American Company, has also been affected by the decline in earnings of the English Company as the latter is an important source of revenue for the American Company. In 1941, the American Company received dividends amounting to $5,700,000 from the English Company. Despite the shortage of inventories and experienced personnel, the showing of the English Company appears to be fairly good.

S. H. Kress earnings in 1942 amounted to $2.13 per share as compared with $1.99 in 1941.

The company had a strong working capital position according to the latest available balance sheet, net current assets amounting to over $24,000,000 as of December 31, 1942 and the ratio of current assets to current liabilities was 2.6 to 1. An excellent sales gain, 15% was attained in 1942 and operating income increased by $5,725,762 or 51%, to $16,787,460 but the provision for normal Federal taxes was higher and the heavy liability of about $8,000,000 for excess profits taxes was incurred with the result that net income was only slightly more than in 1941.

While the company sales have been holding up remarkably well, it is unlikely that it will continue. The disturbing factors are: 1. The possibility of increasing shortages in merchandise; 2. Measure to restrict general purchasing power; 3. Operating expenses and taxes will undoubtedly be higher making it difficult to maintain margins of profit; 4. Difficulty in securing employees.

On past performance the company's common stock is an income investment of good quality but at the current market price of 26½ and indicated income return of 6% based on a $1.60 dividend rate, the stock seems fully valued under present war conditions. For the duration, we feel that funds could be used more advantageously elsewhere.

War Building Volume Past Its Peak

(*Continued from page* 592)

of only $3,429,000. Aggressive promotion activities have improved the company's competitive position, auguring favorably for post-war operations. Although the stock has recovered considerably from the lows of 1942, a yield of 6.7% is still available, on the current $2.00 annual dividend basis, thereby commending these shares as an excellent holding based on peace time prospects.

Johns-Manville Corp., leading American maker of asbestos products, and also a producer of a wide line of other building materials, reported sales of $108,021,000 in 1942, these being 16% over the 1941 total. It was the first time in the company's history that annual volume had exceeded $100,000,000. Profits, after dividends on 25,000 shares of no-par $7 cumulative preferred stock, were equal to $6.35 per share of common, compared with $6.66 per share in 1941. The traditionally strong financial position was shown at the 1942 year-end, with current assets of $52,047,000, including cash and U. S. tax notes of $26,525,000, comparing with current liabilities of $19,657,000. Latest payment on the common stock is $0.50 scheduled for March 24, 1943. During 1942, distributions totaled $2.25 per share. Dominating trade position, indicating well-maintained profits for the duration, with revival of large normal demand after the war, suggests acquisition of the common shares for possibly larger dividends this year, as well as for higher market prices in future months.

With direct Government contracts of more than $40,000,000, operations of Minneapolis-Honeywell Regulator Co., leading concern in its field, will be maintained at high levels for many months, despite the sharp drop foreseen in normal lines. Normally, electrically - operated temperature controls for automatic coal stokers, oil burners and air-conditioning apparatus account for over 60% of gross sales. The potentialities of aviation revenues are seen in the development of two devices: one of these being an electronic contrivance which signals and measures ice formations on airplanes in flight and automatically operates the plane's de-icers; and the other, a "pressure transmitter" designed to reduce fire hazards in airplane cockpits. Capitalization consists of 30,700 shares of $4 cumulative preferred and 25,000 shares of $4.25 cumulative preferred, both of $100 par value, and of 621,900 shares of no-par common stock. Latest common dividend is $0.50 per share, payable March 10, 1943, this comparing with $2.50 for the full year 1942. Large post-war potential demand, with further posssibilities seen in aviation sources, lend considerable appeal to the common shares as a long-term holding for dividends and market price appreciation.

Like all other groups, the building shares are being evaluated in the market much more largely on the basis of peace-time potentials than upon their interim earnings prospect. For selected equities—of which those cited in this summary are typical rather than inclusive—the post-war outlook is favorable.

Securities Disturbing Investors

(*Continued from page* 600)

Conclusion: With a rather weak cash position, dividends are not an immediate prospect. Advancement of the stock in face of declining income indicates that post-war prospects have helped this situation. From this point forward we believe the stock will lag behind general market improvement, so for dependable income and healthy growth in the coming year we suggest that readers transfer capital to some other issue recommended in THE MAGAZINE OF WALL STREET.

The Battles on the Home Front

(*Continued from page* 575)

be the problem of civilian supply. We already have widespread black market conditions in meat supply and also—though less publicized—with gasoline and tire supply. There are no limits to the potential back markets—given swollen public purchasing power, acute scarcities and inadequate Government controls. Unless the control is effective, the same pressures that created the black market in meats will create black markets for butter, canned goods or any other rationed products.

The meat situation is a travesty of unintelligent Federal planning and administration. There are still, at this writing, no price ceilings on live stock. That being so, innumerable stock raisers will sell to the highest bidders, who can only make a profit by disposing of the meat, at wholesale or retail, above ceiling prices; numerous farmers will do their own slaughtering; many retail butchers will go in for slaughtering; unscrupulous small packing firms—mushrooming in numbers—go in only for black market trade. It is not surprising that racketeering criminals have "moved in" on this money-making opportunity wherever possible.

A strictly enforced rationing system for all scarce goods—and this is inevitably coming—is a partial answer but not enough. In addition, prices at the sources of production must be controlled just as strictly as at the wholesale and retail outlets; and this means that producers must be policed, as well as processors, middle men and retailers. That is a very large order but—since the Government evidently will not adequately neutralize excess consumer purchasing power by fiscal measures—it seems to be the only alternative to chaos and inexcusable inequity in the distribution of scarce consumer goods.

To the gripers and snipers in Congress and among the public, I say: "You ain't seen anything yet!"

Dubious Post-War Prospect Weighs Heavily on Non-Ferrous Metal Stocks

(Continued from page 596)

little change is expected for Calumet and Hecla, Howe Sound, Hudson Bay, International Nickel, Kennecott, and Noranda. Interim reports seem to indicate declines for Bunker Hill, Consolidated Copper, Granby, Inspiration, Magma, New Jersey Zinc, Newmont, Phelps Dodge, Reynolds Metals, Vanadium, American Metal, American Smelting and Anaconda. The aluminum, zinc and molybdenum companies will probably fare about as well as any. A few companies will be able to set aside post-war tax reserves, but these will not bulk very large as compared with earnings.

The 1943 outlook is difficult to gauge because of the varying effects of the increased pressure of material priorities and labor shortages. The smaller companies, with their more inflexible resources, will probably be harder hit than the big ones. Of course the Federal Government will take some steps to aid the labor supply, but these may not prove fully effective; the device of moving labor from gold mines to copper mines probably hasn't helped a great deal thus far, for labor will not always move voluntarily unless pressure is applied. If Mr. McNutt, Federal Manpower Administrator, chooses to exercise his power to allocate labor to the mines, the problem may be solved—but union regulations are hard to adjust and Congress may interfere.

Copper stocks have been generally regarded as belonging to the war group. Hence their market action has depended somewhat on the public psychology towards the war. When a short war seems likely the group declines, but when a longer conflict seems likely prices recover. The coppers are currently about halfway between last year's highs and lows—while they have made a partial recovery, they lag con-

siderably behind the general market. The 1942 earnings statements may result in individual readjustments in prices, but the outlook for 1943 appears somewhat drab unless the Government raises the basic price of the metal. However, in any out-and-out inflationary stock market, the metals would hardly be neglected, since they are a favorite group for the inflation-minded.

The Future of Organized Labor

(*Continued from page 572*)

rations, 5.7; toilet preparations, 3.1; shoes and other footwear, 15.8; furniture, 18.6; floor coverings, 13.9; clothing, 10.9. In very few consumer goods does the manufacturing labor cost exceed 20 per cent of the retail price.

The credit for increasing output per worker, for holding unit labor costs within economic bounds, for improved quality of goods and for long-term price reduction belongs very little to labor and preponderantly to management. It is management—a term which embraces the organizers, engineers, research scientists, etc.—which has installed ever more efficient, labor-saving machines and effected improvement after improvement in operating methods and in control of over-head costs.

On the whole, labor has been slow to realize that increased production per man at ever lower unit cost is its own best bet *from a purely selfish—but intelligently selfish—point of view.* In comparison with total wages and salaries paid to employees, total business profits are so small that if the entire sum were added to the income of employees the gain would be very moderate — also quite illusory and short-lived. If there were no profit, or inadequate profit, productive capital investment would, of course, cease, adequate employment could not be maintained, economic stagnation would set in, and in due time there would be no alternative but for the Government to

take over "the works"—including the labor unions. There are no labor unions in Communist Russia, and to get production the basic capitalist principle of providing special incentive for extra effort or superior ability has been increasingly employed. Wage rates vary widely and piece-work wage payments are common. The piece-work system is also more widely used in democratic and highly unionized England than here.

It can fairly be charged that American labor unions are not creative-minded and are overly addicted to a philosophy of protectionism — the least possible work for the most possible money; opposition to labor-saving devices or methods; "spreading the work"; uniform wages for uniform work, which holds output of the most able and energetic worker to output of the least able and energetic.

In certain types of assembly-line manufacturing, output per man has to be geared to a uniform standard and piece-work incentive wages are not practicable. Even so, it would be possible to work out an incentive-payment or bonus method whereby a whole assembly-line group or team of workers could be induced to increase output for special reward. However, union leaders don't like this sort of thing. The few available examples of outstandingly successful management - labor teamwork illustrate that *it is quite possible for special incentive methods to work so well that literally there is no function left for a labor union.*

A very interesting example of this kind is the Lincoln Electric Company, of Cleveland, a manufacturer of arc welding equipment. Here is a brief summary of what has been accomplished, as stated by the company:

"The Lincoln Electric Company of Cleveland was started by one man with a capital of $150 of borrowed money in 1896 and has had no outside capital since. The company has tried to follow the principle of appealing to the intelligent selfishness of the worker, the manager and the investor. It has gone along its unique path for a long enough time so that its results are proven. There is sufficient history back of the facts so that no error can be made in appraising the outcome. The results are:

"(a) Lincoln workers, at least in the factory, are the highest paid employees in industry anywhere in the world.

"(b) Lincoln workers produce more per hour than any organization making a comparable product in the world.

"(c) Lincoln selling prices are less than those of any company making a comparable product. Obviously, companies making specifically competing products must sell at the same price if they are to remain competitors.

"(d) Lincoln stockholders have never missed a dividend since the first payment was made in 1918.

"(e) The Lincoln Electric Company does approximately half of the total arc welding business of the United States and more than a quarter of the arc welding business of the world.

"(f) Practically speaking, there is no labor turnover.

"(g) There is no labor union."

Some of these remarkable results are more specifically pictured in three of the special charts which accompany this article. Space does not permit description of the Lincoln methods in full, but here are some of the moves made over a long period of years:

Setting up an advisory board of workers and foremen elected by their fellow workers to consult with the management; installation of a carefully planned piece-work plan, with sufficient flexibility to be satisfactory to workers and management; company-paid life insurance for all workers equal to a year's wages; two-week paid vacation for all workers, shutting down factory for this purpose in the second and third weeks of each August; sold stock to employees who desired it, more than half of the workers becoming stockholders; established suggestion system with cash payment for good ideas; established a liberal bonus system based on the success of the company and the value of the individual employee to the company as judged by the President, who alone does not share in the distribution; installed an annuity plan for workers; installed a trust fund plan for workers.

Disregarding the war period as unusual and making peace-time comparisons, Lincoln sales in 1937 were nearly $12 million, against about $3\frac{1}{2}$ million in 1929; average selling prices had been reduced from 1929 by some two-thirds; average annual wage and special incentive income of the factory workers was about $3,700 or nearly 80 per cent

more than in 1929; dividends paid per share of stock were more than ten times larger than in 1929.

If all manufacturing industry could get proportionate results out of management and labor, this country would attain a per capita prosperity level not only undreamed of before but almost Utopian.

I say that what has been done by Lincoln — and a few other pioneers in getting maximum utilization of latent productive energies by application of the most enlightened principles of capitalist endeavor — is a challenge to industrial management generally and to the stodgy, protectionist, non-creative philosophy of the American labor movement as it is now led.

Appraising Annual Reports and Balance Sheets

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revenue increased only roughly $7 million or less than 5 per cent. Against this, operating expenses and taxes increased by about $11 million or by nearly 9 per cent, with the result that net for the common shares fell from $2.10 in 1941 to $1.74. It is worth noting that tax increase accounted for only $2.3 million of $11 million increase in costs. Operating expense was up by $5.5 million, maintenance by less than $1 million and provision for depreciation and write-down of intangibles was increased by $2.6 million. The latter increase alone —to some extent discretionary with the management—exceeded increase in taxes.

On the matter of taxes we are presenting a special sample tabulation of many companies, showing tax payments per common share for 1942 versus 1941. In most instances, of course, they were very sharply higher. In the March 20 issue we will complete this series of articles with a final round-up of more inclusive data on earnings, taxes and balance sheet changes.

Views and News on Bonds

(*Continued from page* 582)

substantial amount of refunding business, although volume was considerably reduced by private offerings to insurance companies, and competitive bidding later complicated the picture. Most of this business has now dried up, due to increased pre-occupation with Federal financing, difficulties in obtaining SEC rulings on holding company recapitalizations, etc. Most of the following proposed or rumored issues have been "on the fire" for some time and the offering outlook remains uncertain: $45,000,000 Florida Power & Light bonds; $22,000,000 Public Service of New Hampshire 3¾/73; $60,000,000 Puget Sound Power & Light First Mortgage bonds and debentures; Consolidated Electric & Gas bond refunding plan; $5,000,000 Missouri Valley Gas & Electric bonds; $75,000,000 United Gas 3¼/59; $34,000,000 Utah Power & Light First Mtge. bonds and General Mtge. bonds; $18,000,000 West Texas Utilities Refunding issue and $25,000,000 Laclede Gas Light bonds.

Very few industrial bond offerings are on the horizon at present — a small issue of Deerfield Packing 5/54 have been registered for some time. In the rail list, Seaboard Air Line may be in the market for about $6,000,000 new money (new First 3½) if and when a reorganization plan is effected. The issue over competitive bidding has now extended to rail financing, in connection with the hullabaloo over the recent Erie bond offering by Morgan & Stanley.

In the old days rising commodity prices and inflationary trend were considered by economists to be detrimental to "money" bonds. During the first World War and its aftermath of 1918-1919 prosperity, interest rates rose steadily. Thus Standard & Poor's average yield on long-term corporate bonds advanced from an average of 4.75 in 1914 to 5.47 in 1919 and 6.18 in 1920. Since that time (except for a brief interruption in 1932) the average has been in a broad decline to the present level slightly below 3%. Have our old-fashioned economic rules gone by the boards? Will joint Federal and banking control over money rates continue as iron-clad as they have in the past year of feverish Federal finance? These are interesting questions for the investor as well as the student. Either we are in a new era so far as money control is concerned, or holders of high-grade corporate bonds are going to be sadly disappointed within the next few years.

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